

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
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Executive Committee

July 13, 2004

9:30 - 10:00 AM
1:00 - 2:30 PM

Senate Hearing Room 1, Olympia

AGENDA

(A) Today's Full Committee Meeting

(B) Interim Work Plan

- Matt Smith, State Actuary

(C) Further Action on Previous Issues

- Matt Smith

June: Adequacy of Benefit
Military Service

July: Purchasing Power
Post-retirement Employment
Contribution Rate-setting

(D) August Full Committee Agenda

(E) Business Plan

- Matt Smith

(F) Administration: Rules of Procedure

- Sandra Granger, Coordinator/Office Manager

Representative Gary Alexander

Elaine M. Banks
TRS Retirees

Marty Brown, Director*
Office of Financial Management

Senator Don Carlson

John Charles, Director
Department of Retirement Systems

Representative Steve Conway*
Vice Chair

Richard Ford
PERS Retirees

Senator Karen Fraser

Representative Bill Fromhold

Leland A. Goeke*
TRS and SERS Employers

Bob Keller
PERS Actives

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Glenn Olson
PERS Employers

Representative Larry Crouse

Diane Rae
TRS Actives

Senator Debbie Regala

J. Pat Thompson
PERS Actives

David Westberg*
SERS Actives

Senator Shirley Winsley*
Chair

*Executive Committee

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DRAFT MINUTES EXECUTIVE COMMITTEE MEETING

June 15, 2004

The Select Committee on Pension Policy met in Senate Conference Rooms A-B-C, June 15, 2004.

Executive Committee members attending:

Senator Winsley, Chair
Representative Conway
David Westberg

Other members attending:

Elaine Banks
Richard Ford
Senator Fraser
Representative Fromhold
Robert Keller
Glenn Olson
Diane Rae

Senator Winsley, Chair, called the meeting to order at 9:40 AM.

(1) Proposed Meeting Schedule

The next SCPP meeting dates will be July 13th and August 17th. Dates for September through December were discussed but no decision was made. Senator Winsley stated that the members should keep the proposed meeting dates of September 7, October 19, November 9, and December 7, 2004 in reserve.

(2) State Actuary Appointment Committee

Staff was directed to draft a letter to the Appointment Committee appointing the Chair and Vice-Chair of the Select Committee on Pension Policy, Richard Ford, representing Retirees and Leland Leland A. Goeke, representing Employers to the State Actuary Appointment Committee.

Meeting adjourned at 10:10 to attend the Full Committee meeting.

Meeting called to order at 1:10 PM.

Representative Gary Alexander

Elaine M. Banks
TRS Retirees

Marty Brown, Director*
Office of Financial Management

Senator Don Carlson

John Charles, Director
Department of Retirement Systems

Representative Steve Conway*
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(3) Plan 3 Vesting

Laura Harper, Senior Research Analyst Legal, reviewed the report entitled “Plan 3 Vesting.”

David Westberg moved that Plan 3 Vesting be scheduled for the July Full Committee meeting. Seconded.

Members discussed the full agenda in July, deciding that this issue could be heard at a later date since the SCPP had recommended it in prior years. Senator Winsley withdrew her second.

(4) Part-time ESA's

Bob Baker, Senior Research Analyst, presented the “Part-time Education Staff Associates” report.

(5) Business Plan

Matt Smith, State Actuary, reviewed the “Business Plan” handout. Committee members discussed forming an ad hoc committee and requesting funding for the project.

(6) 2004 Interim Issues

Matt Smith, State Actuary, presented the “2004 Interim Issues” report.

Senator Fraser asked that the 2004 Interim Issues be identified as to status, priorities, complexity and costs.

The meeting adjourned at 2:10 PM.

Select Committee on Pension Policy

Proposed Issue Schedule

(June 21, 2004)

April 20, 2004

10 AM - 12:30 PM, Senate Hearing Room 4
Election of Officers
Session Update
Interim Work Plan
Meeting Dates

September 2004

School District Payroll Reporting - Work Session
Age 65 Retirement - Work Session

May 18, 2004

9:30 AM - 4 PM, Senate Hearing Room 4

Orientation

October 2004

Age 65 Retirement - Public Hearing

June 15, 2004

10:00 AM - 12:30 PM, Senate Hearing Room 4

Adequacy of Benefit - Work Session
Military Service Credit - Work Session

November 2004

Plan 3 Vesting
Part-Time ESAs
Technical Corrections
Legislation

July 13, 2004

10:00 AM - 1 PM, Senate Hearing Room 4

Election of Chair
Adoption of Meeting Schedule
Purchasing Power - Work Session
Post-Retirement Employment - Work Session
Contribution Rate Setting - Work Session

December 2004

Legislation

August 17, 2004

Gain-sharing - Work Session
Pension Funding Council Audit and Recommendations - Work Session/Public Hearing

Select Committee on Pension Policy

Chair's Suggested 2004 Interim Issues

(July 13, 2004)

Issues Forwarded from Last Year

Issue	Status	Estimated Actuarial Cost*
Gain-Sharing	August agenda	Proposal not defined
Military Service Credit	June agenda	Proposal not defined
Working Until Age 65	September agenda	No estimate at this time
Retiree Health Insurance	June agenda - Adequacy of Benefit	Proposal not defined
Adequacy of Benefit	June agenda	Proposal not defined
Pension Funding Council	August agenda	No actuarial cost
School District Payroll Reporting	September agenda	No actuarial cost
Post-Retirement Employment	July agenda	Proposal not defined
WSP Mandatory Retirement Age	Referred to Joint LTC	\$0

SCPP Bills that did not Pass in 2004

Issue	Status	Estimated Actuarial Cost*
Early Retirement Reduction Factor Buy Down	No action necessary	\$0
Age 66 COLA	July agenda - Purchasing Power	\$5 million
Plan 3 Vesting	November agenda	\$3-\$5 million
Part-Time ESAs	November agenda	\$0

* Estimated GF-S impact in first biennium.

Issues Suggested by Others

Issue	Status	Estimated Actuarial Cost*
Recovery of Lost Purchasing Power	July agenda	Proposal not defined
Age 66 COLA	July agenda - Purchasing Power	\$5 million
Annualization of Gain-Sharing	August agenda - Gain-Sharing	\$150-\$250 million
CPI-based Plan 1 COLA	July agenda - Purchasing Power	\$300-\$400 million
TRS 1 Military Service	June agenda - Military Service Credit	Less than \$1 million
Plan 3 Vesting	November agenda	\$3-\$5 million
Plan 2/3 Early Retirement Reduction Factor	September agenda - Age 65 Retirement	\$50-\$75 million
Retirement Governance	2005 interim	No actuarial cost
School District Payroll Reporting	September agenda	No actuarial cost
Plan 2 Member Access to PEBB	September agenda	No estimate at this time
Out-of-State Service Credit	September agenda - Age 65 Retirement	No estimate at this time
Extended School Year Issues	2005 interim	\$0
King County Paramedics into LEOFF 2	2005 interim	Proposal not defined
Part-Time ESAs	November agenda	\$0

**Estimated GF-S impact in first biennium.*

Issues Suggested by Others (continued)

Issue	Status	Estimated Actuarial Cost*
Plan 2/3 Choice at Hire	September agenda - Age 65 Retirement	No estimate at this time
Health Benefits from Pension Plan	June agenda - Adequacy of Benefit	Proposal not defined
LEOFF 1 Disability Boards	October agenda - LEOFF 1 Issues	No actuarial cost
Background on LEOFF 1 Funding	October agenda - LEOFF 1 Issues	No actuarial cost
LEOFF 1 Survivor Benefits	October agenda - LEOFF 1 Issues	\$5 million
LEOFF 1 Medical Fund	October agenda - LEOFF 1 Issues	\$0
LEOFF 1 Contribution Holiday	October agenda - LEOFF 1 Issues	\$0
LEOFF 1 ex-spouse Survivor Benefits	October agenda - LEOFF 1 Issues	Proposal not defined
Age 70.5	August Executive Committee agenda	\$0
Opt In/Opt Out	August Executive Committee agenda	\$0
SCPP Subcommittee Clean-Up Bill	November agenda - Technical Corrections	No actuarial cost
Service Credit Purchase Clean-Up Bill	November agenda - Technical Corrections	\$0
SCPP Executive Committee Membership	September Executive Committee agenda	No actuarial cost
First-Class Cities Service Credit Transfer	2005 interim	No estimate at this time

* Estimated GF-S impact in first biennium.

Priorities from Orientation

Issue	Status	Estimated Actuarial Cost*
Contribution Rate Setting	July agenda	Proposal not defined
Balanced Long-Term Management	July Executive Committee agenda - Business plan	No actuarial cost
Age 65 Retirement	September agenda	No estimate at this time
Purchasing Power	July agenda	Proposal not defined

** Estimated GF-S impact in first biennium.*

Select Committee on Pension Policy

2004 Interim Issues

(July 2, 2004)

Issues Forwarded from Last Year

Issue	Status	Estimated Actuarial Cost*
Gain-Sharing	August agenda	Proposal not defined
Military Service Credit	June agenda	Proposal not defined
Working Until Age 65	September agenda	No estimate at this time
Retiree Health Insurance	June agenda - Adequacy of Benefit	Proposal not defined
Adequacy of Benefit	June agenda	Proposal not defined
Pension Funding Council	August agenda	No actuarial cost
School District Payroll Reporting	September agenda	No actuarial cost
Post-Retirement Employment	July agenda	Proposal not defined
WSP Mandatory Retirement Age	Referred to Joint LTC	\$0

SCPP Bills that did not Pass in 2004

Issue	Status	Estimated Actuarial Cost*
Early Retirement Reduction Factor Buy Down	Alternate to proposal that passed	\$0
Age 66 COLA	July agenda - Purchasing Power	\$5 million
Plan 3 Vesting	November agenda	\$3-\$5 million
Part-Time ESAs	November agenda	\$0

* Estimated GF-S impact in first biennium.

Issues Suggested by Others

Issue	Status	Estimated Actuarial Cost*
Recovery of Lost Purchasing Power	July agenda	Proposal not defined
Age 66 COLA	July agenda - Purchasing Power	\$5 million
Annualization of Gain-Sharing	August agenda - Gain-Sharing	\$150-\$250 million
CPI-based Plan 1 COLA	July agenda - Purchasing Power	\$300-\$400 million
TRS 1 Military Service	June agenda - Military Service Credit	Less than \$1 million
Plan 3 Vesting	November agenda	\$3-\$5 million
Plan 2/3 Early Retirement Reduction Factor	September agenda - Age 65 Retirement	\$50-\$75 million
Retirement Governance	Not on 2004 agenda	No actuarial cost
School District Payroll Reporting	September agenda	No actuarial cost
Plan 2 Member Access to PEBB	Not on 2004 agenda	No estimate at this time
Out-of-State Service Credit	September agenda - Age 65 Retirement	No estimate at this time
Extended School Year Issues	Not on 2004 agenda	\$0
King County Paramedics into LEOFF 2	Not on 2004 agenda	Proposal not defined
Part-Time ESAs	November agenda	\$0

**Estimated GF-S impact in first biennium.*

Issues Suggested by Others (continued)

Issue	Status	Estimated Actuarial Cost*
Plan 2/3 Choice at Hire	September agenda - Age 65 Retirement	No estimate at this time
Health Benefits from Pension Plan	June agenda - Adequacy of Benefit	Proposal not defined
LEOFF 1 Disability Boards	Not on 2004 agenda	No actuarial cost
Background on LEOFF 1 Funding	Not on 2004 agenda	No actuarial cost
LEOFF 1 Survivor Benefits	Not on 2004 agenda	\$5 million
LEOFF 1 Medical Fund	Not on 2004 agenda	\$0
LEOFF 1 Contribution Holiday	Not on 2004 agenda	\$0
LEOFF 1 ex-spouse Survivor Benefits	Not on 2004 agenda	Proposal not defined
Age 70.5	Not on 2004 agenda	\$0
Opt In/Opt Out	Not on 2004 agenda	\$0
SCPP Subcommittee Clean-Up Bill	November agenda - Technical Corrections	No actuarial cost
Service Credit Purchase Clean-Up Bill	November agenda - Technical Corrections	\$0
SCPP Executive Committee Membership	Not on 2004 agenda	No actuarial cost
First-Class Cities Service Credit Transfer	Not on 2004 agenda	No estimate at this time

** Estimated GF-S impact in first biennium.*

Priorities from Orientation

Issue	Status	Estimated Actuarial Cost*
Contribution Rate Setting	July agenda	Proposal not defined
Balanced Long-Term Management	July Executive Committee agenda - Business plan	No actuarial cost
Age 65 Retirement	September agenda	No estimate at this time
Purchasing Power	July agenda	Proposal not defined

** Estimated GF-S impact in first biennium.*

Select Committee on Pension Policy

Adequacy of Retirement Benefit

(June 8, 2004)

Issue

How do Washington pension benefits maintain their value over time? How does retirement timing affect the benefit over the period of retirement? How do Washington's retirement benefits compare with those of other states? What are some of the demographic and economic trends that place the adequacy of retirement benefits at risk?

This report examines the adequacy of retirement benefits by analyzing specific retiree profiles and calculating how the resulting pension benefits perform over time. The report also compares and contrasts Plan 1 and Plan 2 retirees under various scenarios. A comparison with retirement benefits in nine other retirement systems is provided for context. In addition, this report considers the larger social and demographic trends that create risk in terms of maintaining an adequate benefit throughout retirement.

Many proposals and topics have been submitted to the Select Committee on Pension Policy (SCPP) for study during the 2004 interim. They include the topic "recovery of lost purchasing power," proposed changes to the provisions for adjusting retiree income, and gain-sharing proposals. The Executive Committee of the SCPP has requested that these requests be explored in a larger context that examines the adequacy of Washington's retirement benefits.

Staff

Robert Wm. Baker (360-596-9237)

Senior Research Analyst

Laura Harper (360-586-7616)

Senior Research Analyst/Legal

Members Impacted

The purpose of this initial report is to provide a methodology and analytical approach for evaluating the adequacy of a retirement benefit. We have not evaluated every Washington plan; rather, we have examined the Plans 1 and 2 of the largest Washington state pension system, the Public Employees' Retirement System (PERS).

The Teachers' Retirement System (TRS) Plans 1 and 2 have near-identical provisions to PERS Plans 1 and 2. Also, the School Employees' Retirement System (SERS) Plan 2 has essentially the same plan design as PERS 2. The experience within these plans differ primarily in average final compensation (TRS being higher, and SERS being lower than PERS) and service (TRS being longer.) While this results in higher average benefits in TRS and lower average benefits in SERS, the patterns of salary replacement among these systems and plans are essentially the same, with PERS occupying the middle ground. The Plans 3 were not included, since they are hybrid plans with a significant defined contribution component that is highly dependent upon personal savings rates. The report also excludes the Law Enforcement and Firefighters' plans, the Washington State Patrol plan, and the Higher Education plans.

According to the most recent actuarial valuation (based on 2002 data), PERS 1 had 21,737 active and 54,006 retired members, and PERS 2 had 116,939 active and 9,741 retired members.

Current Situation

The following is a summary of the key retirement provisions in PERS.

A. *Service Retirement Allowance*

Eligible PERS 1 retirees receive 2% of average final compensation (AFC) for each year of service credit to a maximum of 60%, with the exception of certain elected officials, who receive 3% of AFC for each year of elective service. For service prior to April 25, 1973, members of the Plans 1 receive the greater of:

1. the sum of a 1% pension, \$100, and an annuity funded by member contributions; or
2. 2% of AFC for each year of service credit to a maximum of 60%.

Service earned by members of PERS 1 prior to October 1, 1947, is factored by 1.42857% of AFC.

Retirees in the PERS Plan 2 receive 2% of AFC for each year of service credit without limit.

B. *Eligibility for Normal Retirement*

PERS 1 members are eligible for normal retirement upon fulfillment of one of the following:

1. five years of service and attainment of age 60;
2. 25 years of service and attainment of age 55; or
3. 30 years of service.

PERS 2 members are eligible for normal retirement upon five years of service and attainment of age 65.

C. *Eligibility for Early Retirement*

There are no provisions for early retirement of PERS 1 members.

PERS 2 members are eligible for early retirement according to the following terms:

1. 20 years of service and attainment of age 55 with the benefit actuarially reduced from age 65; or
2. 30 years of service credit and attainment of age 55 with a 3% per year reduction from age 65.

D. ***Cost of Living Adjustments (COLAs)***

Eligible PERS 1 retirees currently receive the *Uniform COLA*, an annual increase of a fixed dollar amount per month per year of service. This amount increases by 3% annually, and is payable to retirees who are 66 or older and retired at least one year. The increase on July 1, 2004 will be \$1.21 per month per year of service. An eligible retiree with 30 years of service will receive a monthly increase of \$36.30.

Members of PERS Plan 2 who have been retired at least one year receive an annual adjustment based on the CPI-Seattle to a maximum of 3%.

E. ***Minimum Benefits***

As of July 1 of this year, eligible retirees from the PERS Plan 1 will receive a minimum benefit of \$32.97 per month per year of service (before reduction for benefit payment options). Recipients of the minimum benefit automatically receive increases through the Uniform COLA.

Effective July 1, 2004 members of Plan 1 with at least 25 years of service who have been retired at least 20 years will receive a \$1,000 minimum benefit (before reduction for benefit payment options). The benefit is not subject to the Uniform COLA, and will sunset when the existing minimum benefit provisions “catch-up” in about 2010.

There are no minimum benefit provisions applicable to members of PERS Plan 2.

F. ***Gain-Sharing***

Members of PERS 1 may receive periodic permanent increases in their Uniform COLA through gain-sharing, which was introduced in 1998. Gain-sharing is based on “extraordinary” investment returns. When average returns for the previous four years exceed 10%, one half of the amount in excess of 10% is distributed to Plan 1 members through the Uniform COLA.

There is no gain-sharing provision for members of the PERS Plan 2 because of the cost-sharing provisions that impact member and employer contribution rates.

History

There has been significant legislative activity in both PERS 1 and TRS 1. Minimum benefit and Uniform COLA provisions for these plans were instituted in 1995. The \$1,000 minimum benefit was established during the 2004 legislative session.

Numerous bills have been introduced to address PERS and TRS 1 COLAs. The most recent was SB 6248/HB 2539, which would have changed the age requirement for receiving the initial Uniform increase. The bill would have allowed members who had been retired one year and who turned age 66 in the calendar year in which the increase is given (as opposed to those who turned age 66 by July 1) to begin receipt of the Uniform COLA. This bill was not forwarded from either fiscal committee.

Other legislation has attempted to increase PERS and TRS 1 COLAs through gain-sharing. SB 5516/HB 1426 were introduced in 2003 to increase the frequency of gain-sharing distributions, which currently occurs in even-numbered years. The legislation would have distributed odd-year amounts based on a formula allocating one point for each year of service and two points for each year of retirement. Neither bill received a hearing.

Examples - Pre-retirement Income Replacement

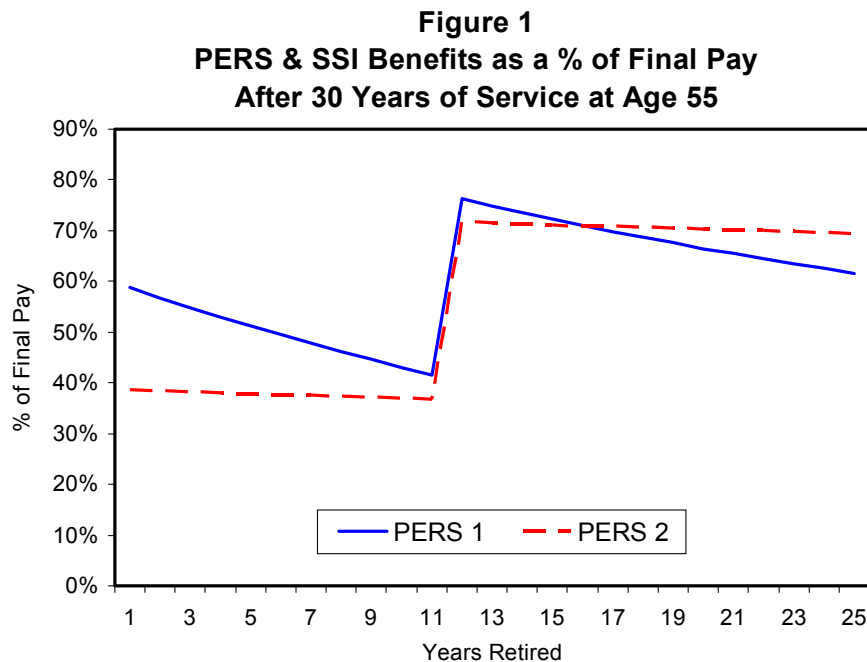
Pension benefits are commonly evaluated on the percent of pre-retirement income they replace. That percentage can range from 60% to 90% depending on individual needs. Examples used in this section will be based on percent of final pay, and how the benefit maintains that percent through a retiree's 80th year.

The examples in this analysis will be based on the following assumptions:

- PERS 1 and PERS 2 plan provisions
- Final annual salary of \$45,000
- Salary increases of 4.5% per year prior to retirement (average final compensation factors of .978 in PERS 1 and .918 in PERS 2.)
- 25 and 30 years of service
- Retirement ages of 55, 60, and 65

- Inflation at 3.5% annual rate (actuarial assumption)
- Social Security (SSI) beginning at age 66 when members would receive an unreduced benefit.

The examples are adjusted for inflation so that the real value of the benefit may be illustrated.

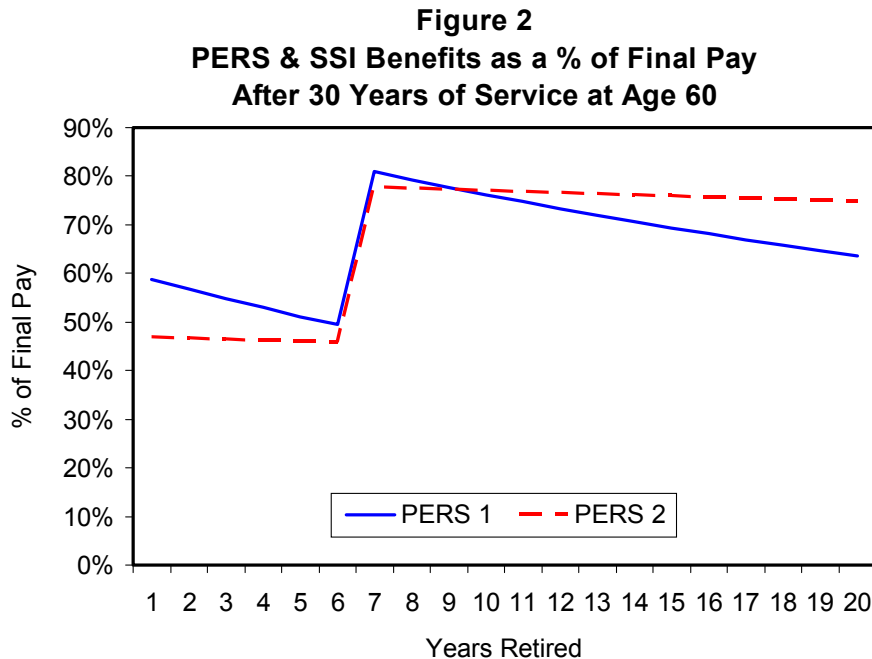


In Figure 1, the member retires at age 55 with 30 years of service resulting in a full benefit in PERS 1 and a reduced benefit (3% per year from age 65) in PERS 2.

The PERS 1 benefit initially replaces nearly 60% of final pay, but quickly loses value because of inflation. After receiving Social Security and Uniform Increases beginning in the 12th year, the combined benefits continue to lose value. While Social Security is fully indexed, its small share of the combined benefits can't offset the diminished value of the PERS 1 benefit.

The PERS 2 benefit, in comparison, begins under 40% of final pay, and retains much of that value as a result of the 3% COLA members begin receiving 1 year after retirement. When the member begins receiving Social Security, the combined benefits equal 72% of final pay and by the 25th year still equal 69% of final pay.

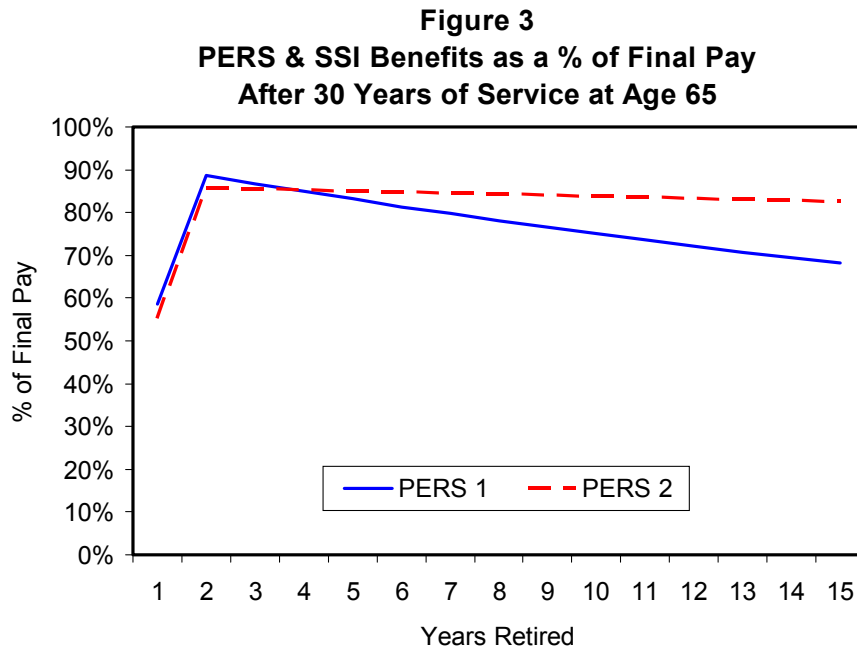
The cross-over point, where PERS 1 and PERS 2 benefits are equal, is the 16th year. While PERS 2 benefits then exceed PERS 1, the accumulated benefits in PERS 1 surpass PERS 2 even after 25 years.



In Figure 2, the member retires at age 60 with 30 years of service. Again, the PERS 1 benefit begins at almost 59% of final salary. As in the first example, the benefit declines because of inflation; in this example, to about 50% of final pay. Upon receiving Social Security and the Uniform Increase in the 7th year, the PERS 1 member's benefit reaches 81% of final pay. Despite the fully indexed Social Security benefit, and the Uniform Increases, the PERS 1 benefit continues to diminish in value to about 64% of final pay by the time the member reaches 80 years of age.

The PERS 2 benefit, on the other hand, begins at 47% of final pay, and retains that value as a result of the plan's COLA provision. Upon receiving Social Security, the combined benefits increase to 78% of final pay and, by the time the member reaches 80 years of age, are still 75% of final pay.

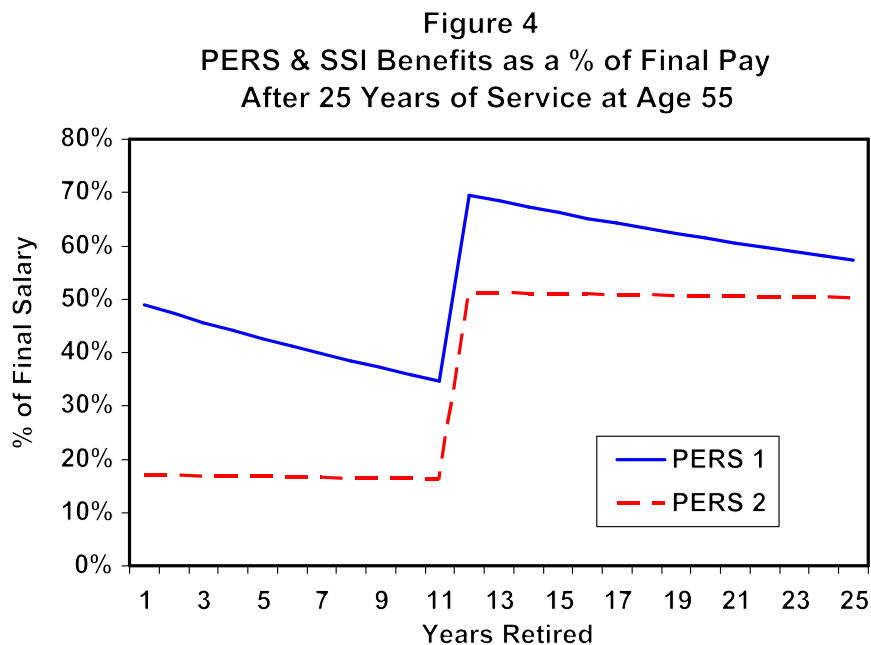
The cross-over point, where PERS 1 and PERS 2 benefits are equal, is at 9 years of retirement. The point at which accumulated benefits in PERS 1 and PERS 2 are equal is at 18½ years.



In Figure 3, the member retires at age 65 with 30 years of service. The PERS 1 member begins receiving Social Security and the Uniform Increases in the 2nd year of retirement, and the combined PERS and Social Security benefits equal 89% of final pay. As in the previous examples, the combined benefits decline in value to about 68% of final pay by the time the member reaches 80 years of age, this despite Social Security indexing and the Uniform COLA.

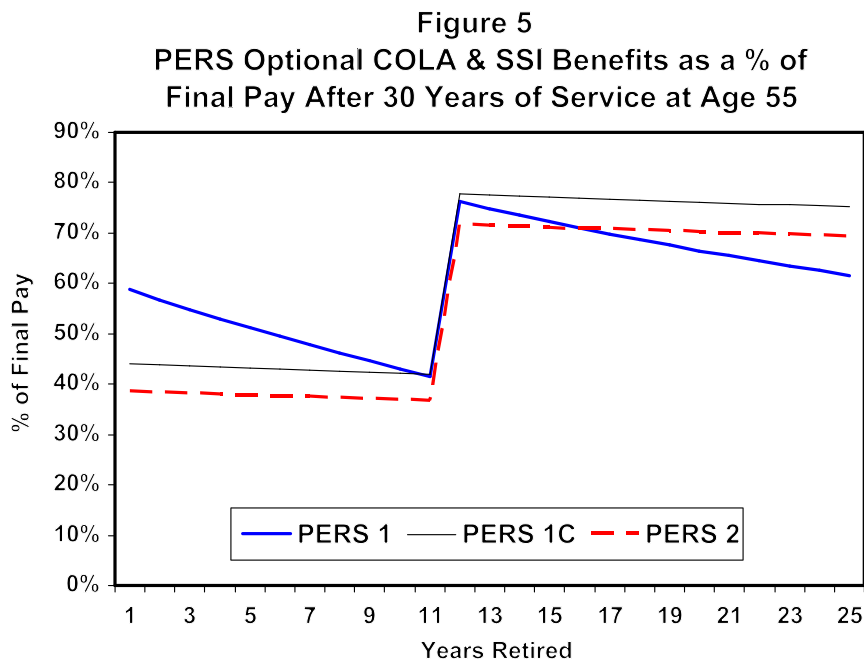
The PERS 2 benefit begins at 55% of final pay, several percentage points below the PERS 1 benefit. Upon receiving Social Security in the 2nd year of retirement, the combined benefits increase to 86% of final pay and, by the time the member reaches 80 years of age, are still over 83% of final pay.

The cross-over point, where PERS 1 and PERS 2 benefits are equal, is at 3½ years. The point at which accumulated benefits in PERS 1 and PERS 2 are equal is at 6½ years. Thereafter, PERS 2 benefits surpass PERS 1 benefits in all measures.



In Figure 4, the member retires after 25 years of service at age 55. As in all these examples, the PERS 1 member is eligible for an unreduced benefit. At 25 years of service, however, the PERS 2 member's benefit is subject to a full actuarial reduction – about 8% per year from age 65. While the PERS 1 benefit begins at 49% of final pay, the PERS 2 benefit begins at 17%. After 10 years of receiving benefits, the plan 1 member still receives almost double the plan 2 amount. Upon receipt of Social Security benefits, the plan 1 member's benefits reach 69% of final pay, while the plan 2 member's benefits increase to 51% of final pay.

Still quite evident in this analysis is the inflation impact on the PERS 1 benefits, even after inclusion of Social Security and the Uniform Increases. Because of the severity of the actuarial reduction, there is no cross-over point on this illustration where the PERS 2 benefit surpasses PERS 1, even after accounting for the effects of long-term inflation. This, more than any other example, illustrates the greater value of the PERS 1 benefit at earlier ages.



As a final example, Figure 5 illustrates the share of final pay a plan 1 member would receive were they to choose the optional COLA payment upon retirement. The optional COLA payment allows a plan 1 member to receive an actuarially adjusted benefit that will increase with inflation, to a maximum of 3% per year, beginning one year after retirement – the same as the plan 2 COLA. The actuarial reduction for a member at age 55 is a factor of .751 meaning the adjusted initial benefit is about three-fourths of the original benefit.

The initial replacement rate declines from 59% to an adjusted 44%. Most obvious in this example is the stability of the adjusted benefit stream, essentially paralleling the plan 2 pattern. By accepting a reduced benefit in the beginning, the member is assured of receiving a more stable benefit over their retirement.

When the member becomes eligible for an unreduced Social Security benefit, the combined replacement rate reaches 78%, higher than the unadjusted rate. Because this is an actuarial adjustment, the accumulated benefit should be the same under either benefit at the end of the member's life.

In each of the previous five examples, the plans provide a benefit that replaces a significant share of final pay, particularly when the member retires at a later age. In concert with Social Security, the benefits can replace close to 90% of

final pay when members retire at age 65. While PERS 2 can't replace as great a share of salary as PERS 1 at early retirement ages, it can at later ages, and at all ages it maintains a more constant benefit.

Examples - Retention of Original Purchasing Power

Another method to illustrate the adequacy of benefits is to analyze how well they retain their original purchasing power, i.e. how well they protect retirees from inflation. The following examples will examine actual retiree benefits against actual inflation history for PERS 1 and PERS 2 members who retired at 55, 60, and 65 years of age. This is a necessary complement to the previous examples with an assumed rate of inflation because inflation is not necessarily a constant; it is higher in some years and lower in others. As a result, the timing of retirement has a direct bearing on how well the value of the benefit is maintained.

For instance, a member retiring in 1979 would have been subject to over 16% inflation in 1980, 10.8% inflation in 1981, and 6.5% inflation in 1982 (see Figure 6), which would have caused a 27% loss of purchasing power over a very short period of time. A member retiring more recently, however, would have been spared such immediate diminishment of their benefit's value as consumer prices in the Puget Sound region rose 1.8% in 2002, and 1.4% in 2003.

Figure 6
Annual Percent Changes Seattle CPI-W
1979 - 2003

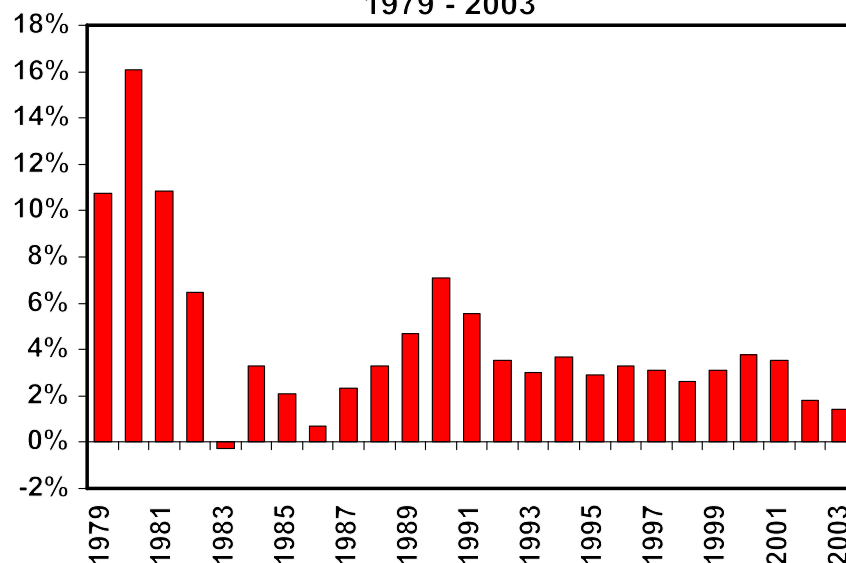


Figure 7 shows the current purchasing power of PERS 1 members who retired at age 55, 60, and 65 by year of retirement. The loss of purchasing power for those retiring at age 55 is persistent, even after they become eligible for the Uniform Increases. Those who retired at age 60 experienced a loss of purchasing power for the first 6 years of retirement, similar to those who retired at 55. As the Uniform Increase becomes available, the purchasing power of these benefits tends to even out. The benefits of those retiring more recently at age 65 have retained a significantly greater portion of their purchasing power than the benefits of those retiring at younger ages. Also evident is the loss of purchasing power, regardless of age at retirement, among those who have been retired the longest.

Among these groups, those who retired most recently at older ages were more able to benefit from the Uniform COLA. The benefit of those who retired at age 65 in 1989 has retained over 78% of its original purchasing power. The benefit of those retiring at age 60 in 1984 has retained 77% of its original purchasing power. Those who retired at age 55 in 1979 have experienced the loss of over 50% of their original benefit's purchasing power.

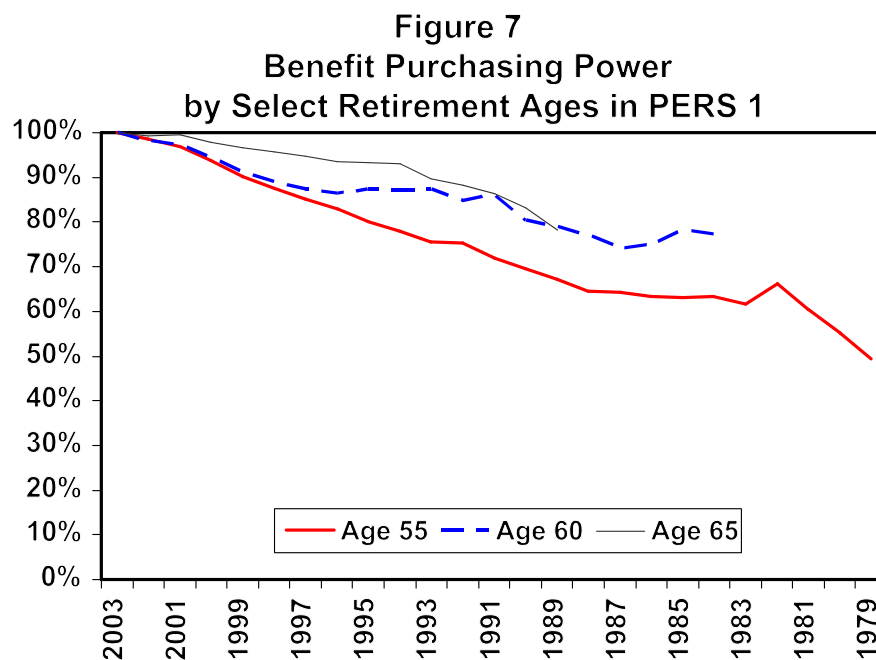
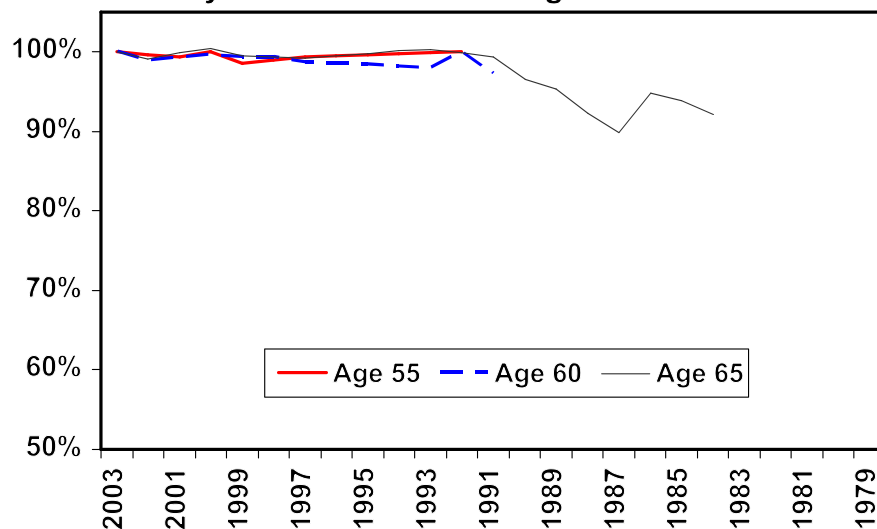


Figure 8 provides a distinct contrast between plan 1 and plan 2. The ability of a PERS 2 benefit to retain its purchasing power is evident. The benefit of those who retired at age 65 in 1984 has still retained over 92% of its original

purchasing power. More evident here is the ability of a PERS 2 benefit to retain its purchasing power among those retiring at age 55 and 60, groups whose benefits become significantly diminished over time in PERS 1.

Figure 8
Benefit Purchasing Power
by Select Retirement Ages in PERS 2



Policy Analysis

Retirement benefit adequacy covers a wide range of discussions. The following analysis will touch on current plan 2 policies that were established to address some of the design shortcomings of plan 1. Comparisons of plan designs will be made between select Washington plans and among several state and city peers. A discussion of income replacement is also included as it forms the basis for the examples leading this analysis. Following that will be a discussion on the “Three-Legged Stool” model of retirement income, as adequacy cannot be determined by just one component of a retirement plan but by all – employer pensions, Social Security, and personal savings. Personal savings, savings rates, and how members of the baby boom population are preparing for retirement will then be discussed because personal savings is a much ignored leg of the stool. An analysis of our aging population will show how longevity has had a significant impact on retirement plan costs and plan design. Among the costs borne by retirees as they live even longer is health care. This final discussion will touch on health care as both an employment benefit and as a growing part of retirees’ expenses, and will compare what other retirement plans offer.

A. ***Plan 1 and Plan 2 Policies***

This analysis is primarily a comparison of the plan 1 and plan 2 retirement policies. As such, current implicit retirement policies, which have driven the design of the plans 2/3, tend to illustrate some of the conflicting elements of the plan 1 design that the legislature wanted to address in the plan 2s. Foremost of these policies are:

- retiree benefits should have some form and degree of protection from inflation; and
- plan design should be as neutral as possible in its effect on employees, and should not encourage early retirement.

In terms of inflation protection, the plan 2 design includes a cost of living adjustment beginning one year after retirement, including for those retiring early. So even though there is a penalty for retiring early in plan 2 in the form of actuarial or 3% per year benefit reductions, which would discourage early retirement, the early retirement benefit is still protected from rising consumer prices. As a result, plan 2s adhere to the policies outlined above.

Inflation protection in plan 1, which is based on service rather than salary, begins at age 66 regardless of the age at which a member retired. As the plan design maximizes a member's benefit at 30 years of service, and has generous post-retirement employment benefit improvements, there is an incentive to retire after 30 years, even for members in their early to mid-50s. As a result, the plan 1s earlier retirement and no COLA for earlier retirees partially comply with current policy on inflation protection, though not from the date of retirement, and, for early hires, are in conflict with current policy discouraging early retirement.

B. ***Comparisons with Other Washington Systems/Plans***

LEOFF 1: The invariable comparison in the Washington systems is with the Law Enforcement Officer's and Fire Fighter's retirement plan 1 (LEOFF 1). Provisions in LEOFF 1 allow a member to retire with an unreduced, fully indexed benefit after five years of service at age 50. While this is contrary to the policy against encouraging early retirement, deference has been given to the dangerous nature of jobs covered by this plan. Those who retire because of a duty-related disabling injury receive a tax-free benefit which increases its value beyond the dollars it

represents. With a fully indexed benefit, LEOFF 1 members are protected against all levels of inflation, unlike the Uniform Increase provisions in the other plan 1s, and the 3% capped COLA in the plan 2s and 3s. LEOFF 1 retirees are also provided full medical coverage in retirement by their former employer. This coverage insulates them from the high levels of healthcare inflation that capture an ever-increasing share of other retirees' benefits. If reasonable salary replacement, protection against high levels of inflation and healthcare costs are the measure of adequacy, then the LEOFF 1 plan would be the benchmark for all comparisons. In light of the level of benefits, the contribution rates for LEOFF 1 have been much greater than any other public plan in Washington State, and those contributions do not account for the medical benefits retiree's former employers are obligated to pay. When retirement contributions were being made in LEOFF 1, employers and employees each paid 6% of pay while the state was obligated to pay double or triple that amount.

Plan 3s: Other Washington retirement plans to compare with the plan 1s and plan 2s are the plan 3s. These plans are hybrid plans that have both a defined benefit and a defined contribution component. Unlike the shared cost nature of the plan 2s, the plan 3s seek to share the risk of the retirement plan as well. Members choose the share of salary they contribute to their defined contribution accounts and also choose the investment portfolio. The employer makes retirement contributions for the defined benefit which will provide members with 1% of their average final compensation for each year of service. The defined benefit is protected by a CPI-based COLA with a maximum 3% adjustment per year. As a result, the member assumes not only the risk of the investment returns on their defined contribution account, but also whether those returns will be substantial enough to protect that portion of their retirement benefit from inflation.

Higher Education Plans: Higher Education retirement plans in Washington are primarily defined contribution plans. Members and their employers each contribute either 5%, 7.5%, or 10% of the members' salary to the members' accounts depending on the members' ages. The member is then responsible for the investment portfolio i.e. where the account monies are invested. In this system, the member assumes the majority of the risk of the plan, unlike the plan 1s and 2s where the

employer is the guarantor of the value of the retirement benefit and assumes the risk. At the end of their careers, higher education plan members are responsible for establishing a distribution method that will provide them with an income stream for the remainder of their lives.

Higher education members do not assume all the risk in their plan. Upon meeting specific service requirements, members are eligible for a supplemental retirement benefit that guarantees them a minimum of 50% of the average of their highest two consecutive years salary.

Risk Sharing: The contrast between Washington's retirement plans is primarily in who assumes the risk. In the PERS and TRS plan 1s, the employers assume the risk of the basic benefit, but members assume all the risk of inflation if they retire before age 65 and some inflation risk afterwards. LEOFF 1 employers assume all the risk of the benefit and inflation, including health care inflation, as the members' benefits have a fully indexed COLA. Plan 2 members share the costs of the plans, but the plan design guarantees the benefit and protects that benefit from moderate inflation. Plan 3 members assume at least half the risk in their retirement benefits, and higher education members would assume all in absence of the supplemental benefit.

C. **Plan Design Comparisons With Peer Systems**

Retirement plan design changed significantly between PERS 1 and PERS 2 to accommodate the changes in policy. The shift from a service-based to an age-based plan, and the availability of an automatic post-retirement COLA are the major distinctions between the two designs. How do other systems compare with these basic elements? Figure 9 illustrates these elements among some peer systems.

Figure 9
Benefit Formulas, Limits, and Retirement COLAs by Select Plans

System	FAS Period	Formula Multiplier	Limit	COLA
Cal PERS	1 YH	2.0% at 60, 2.418% at 63	None	2%
Cal STRS	3 YHC	2.0% at 60, 2.4% at 63	100%	2%
Colorado PERA*	3 YH	2.5%	100%	3.5%
Florida (FRS)	5 YH	2.0%	100%	3%

System	FAS Period	Formula Multiplier	Limit	COLA
Idaho (PERSI)	42 MC	2.0%	100%	1% min, 6% max, CPI base
Iowa (IPERS)	3 YH	2.0 % in 1 st 30 yrs., 1% next 5 yrs.	65%	CPI - 3% max
Minnesota (MSRS)	5 YHC	1.7%	100%	CPI - 2.5% max invest. surplus
Missouri (MOSERS)*	3 YHC	2.5%, 2.55% with 31 or more yrs. of service	None	CPI - 5% max
Ohio (OPERS)*	3 YH	2.2% 1 st 30 YRS, 2.5% YRS > 30	100%	CPI - 3% max
Oregon PERS*	3 YH	2.2% 1 st 30 yrs. 2.5% yrs > 30.	None	CPI - 2% max
Seattle (SCERS)	2 YHC	2.0%	60%	1.5%

* No Social Security

Y = Year; H = High; C = Consecutive; M = Monthly

In the above cross section of public retirement plans (Figure 9), there are numerous similarities:

- Most have at least a 2% formula, meaning that a member with 30 years of service will receive 60% of average salary upon retirement. These plans implicitly acknowledge the 60-90% salary replacement standard.
- Those with a formula greater than 2% tend not to have Social Security benefits, the higher formula recognizing that when Social Security is missing, the employer provided benefit must be more substantial.
- All but one have a multi-year averaging of final salary -- the most common being a 3-year average -- acknowledging that late career promotions do have retirement benefit consequences.
- Two have effective limitations on the size of the benefit a member may earn. Others allow up to 100% salary replacement or greater, thus encouraging longer service.
- All of the plans have Cost of Living Adjustments. Four of the plans use CPI-linked COLAs, the others use a straight percentage adjustment per year.

These plan design characteristics indicate that the standard 60% salary replacement is considered a minimum for an employee with 30 years of service. They also indicate that more service will generate a larger

benefit, an incentive to work longer. The COLA provisions offer the member reasonable protection from inflation and those plans in which the employees did not make Social Security contributions offered the highest initial replacement rate and inflation protection.

D. ***Income Replacement Ratio***

Because retirement preparations are largely a matter of personal choice, there is no widely accepted national standard for what constitutes an adequate or appropriate level of income replacement.

Investorwords.com, which claims to be the biggest and best investing glossary on the worldwide web, defines “income replacement ratio” as “the percentage of working income that an individual needs to maintain the same standard of living in retirement, usually 60-90%.” As reflected in this definition, there is an absence of a single standard. Researchers have used a number of different measures to assess the adequacy of retirement preparations, and have come to a variety of conclusions.

Moreover, many financial experts are reluctant to recommend a particular income replacement ratio, as needs for individuals will vary according to many factors. Those factors include age of retirement, location of retirement, cost of living, value of personal assets, lifestyle, health factors, availability of medical insurance, expenses related to long-term care, and many others. Thus, individuals are usually encouraged to calculate their own retirement needs according to their expected plans.

E. ***The “Three-Legged Stool”***

Acknowledging that retiree income from pensions may be inadequate, the United States has traditionally depended on what is often referred to as the “three-legged stool” -- Social Security, employer pensions, and personal savings – to finance retirement. However information on actual income sources for persons over age 65 reveal a disconnect between the model and actual behavior. In addition, recent trends appear to be weakening each “leg” of this traditional model.

While Social Security and Medicare have long been the most stable leg of the stool, both are facing projected long-term shortfalls due to a combination of the imminent retirement of the baby boom generation, lengthening life spans, and rising per-capita health care expenditures. For the average earner who retires at 65, Social Security currently

provides benefits equal to 41.3% of pre-retirement earnings, or 38.5% of earnings after deducting Medicare Part B premiums. But for someone retiring in 2030, Social Security benefits are projected to replace 29.9% of pre-retirement wages. The reasons for the decline include the slated increase in the normal retirement age to 67, the rising cost of Medicare Part B premiums, which are automatically deducted from Social Security benefits, and the expanding taxation of Social Security benefits under the personal income tax.¹

With respect to public and private pension plans, funding has diminished in recent years. In the public sector, state and local retirement plans are facing daunting future contribution requirements after many plans improved benefits and took funding holidays in response to the gains of the late 1990's, and then faced poor stock market performance during the period from 1999 to 2002. Similarly, in the private sector, 58% of private pension plan sponsors surveyed by Deloitte Consulting in early 2004 listed the following two primary concerns about their pension plans: the amount of the future cash contribution and the effect of the plan's expense on financial statements. These sponsors identified reducing cost as the single largest expected outcome from a new retirement plan design.

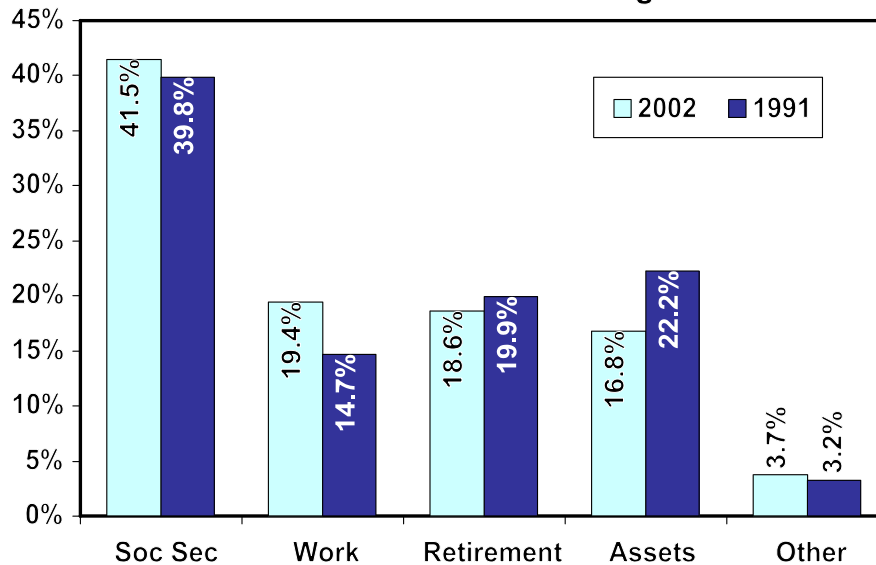
Finally, personal savings rates for a majority of households have been extremely low in recent years, and some households save very little and have few financial assets. The Federal Reserve's 2001 Survey of Consumer Finances reported that the typical household approaching retirement has only \$55,000 in its supplemental retirement account, an amount which is needed to support two decades in retirement.²

F. ***Post-Retirement Income Sources***

What are the actual sources of income for those over age 65? The answer to that question gives an indication of the current adherence to the three-legged stool model. The Employee Benefit Research Institute recently published income statistics from the most recent Current Population Survey showing the 2002 percentage distribution of average income by source for the population age 65 and over (see Figure 10). This report showed that 19.4% of the income for this group was from earnings from work, 41.5% of income was from Social Security, 18.6% was from retirement plans of various types, 16.8% was income from

assets, and 3.7% was income from all other sources, including financial assistance, non-pension survivor benefits, disability, unemployment compensation, workers' compensation, veterans' benefits, and public assistance.

Figure 10
Sources of Income After Age 65



These figures were slightly different in 1991, when there was a higher percentage of income from assets (22.4%) and less reliance on income from work (14.7%). Social Security represented 39.8% of income in 1991, 19.9% of income was from retirement plans of various types, and 3.2% of income was from all other sources.

Considering the above figures, the three legged stool has some legs that are shorter than others. Also, there are components of actual retirement income that are not reflected in this model, the most significant of which is income from continuing to work after retiring from a primary job. According to Merrill Lynch's 2004 Retirement Preparedness Survey, 54% of Americans intend to work full or part-time after age 65, citing financial reasons. The desire and need for a phased retirement has been growing. While not a part of any formal plan design, the income sources in figure 10 show that retirees have instituted their own form of phased retirement.

G. **Personal Savings**

As personal savings are an important leg of the three-legged-stool model, it is necessary to examine peoples current saving behavior. That behavior is largely influenced by their expectations about the future. The Employee Benefits Research Institute recently published its 14th annual Retirement Confidence Survey, a study of the attitudes and behaviors of American workers and retirees toward saving, retirement planning and long-term financial security. The following are some of the survey's findings.

Four in ten workers say they are not currently saving for retirement. Many of those with savings cite low levels of savings.

Few workers appear to have an idea of how much it takes to live comfortably in retirement. Only about 4 in 10 have taken steps to calculate how much they need to save in order to live comfortably in retirement, and one-third of those say they don't know or can't remember the result of the calculation.

Almost half of workers who have not saved for retirement feel at least some confidence about their ability to have a comfortable retirement. Some of these workers expect an employer to fund their retirement. Others are planning to save later, rely on Social Security, obtain support from family or friends, work in retirement, or manage through some other arrangement.

A majority of Americans report that they have saved some money for retirement, but many have saved only a small amount, and savings rates have not increased in recent years.

Some workers have expectations about their retirement that cannot be achieved. Workers tend to expect their living standard to be at least as good as before retirement and to remain so throughout their retirement. For some, this is unlikely due to increasing medical costs, declining savings and inflation. Unrealistic expectations have likely led to the low savings rates as illustrated in Figure 11.

Figure 11
Total Savings and Investments, by Age

	All	25-34	35-44	45-54	55+
Less than \$25,000	45%	64%	48%	30%	29%
\$25,000 - \$49,000	11%	17%	11%	9%	5%
\$50,000 - \$99,000	9%	7%	10%	9%	10%
\$100,000 - \$249,000	10%	2%	9%	19%	13%
\$250,000 or more	8%	3%	7%	10%	13%
Don't Know / refused	18%	8%	15%	24%	30%

Source: Employee Benefits Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc. 2004 Retirement Confidence Survey

Note: This survey excluded the value of the respondents' residence. Many home-owners do consider their homes savings instruments. While demographic patterns may result in diminished home values in the future, care should be given when drawing conclusions on results that exclude such a significant personal asset.

Finally, the survey showed that *retirement education can lead to changes in savings behavior of a significant proportion of workers*. More than 4 in 10 workers who tried to do a savings need calculation reported changing their retirement planning as a result. Similarly, almost 3 in 10 of those who received retirement education through the workplace changed their retirement planning.

H. ***Are Boomers Ready?***

More specific information on retirement preparedness is available for the Baby-Boom generation (people born between 1946 and 1964). Their approaching retirement has become a public concern - partly because of the budgetary pressures that will develop when baby boomers collect Social Security and federal medical benefits, but also because of claims that boomers are not accumulating enough private savings to finance their retirement.

According to the Congressional Budget Office (CBO) baby boomers make up one of the largest and most prosperous generations in U.S. history. The CBO recently reviewed the research that has been conducted over the past decade on the retirement prospects of aging Americans in a report entitled "Baby Boomers' Retirement Prospects: An Overview" published in November, 2003.

The CBO found that most studies of retirement preparation use a standard derived from economic theory suggesting that people will try to maintain the same level of well-being throughout their lifetime. The studies that apply such a standard suggest that about half of boomer households are on track to accumulate enough wealth to maintain their current standard of living if the heads of households retire as scheduled.

At the other end of the spectrum, roughly a quarter of the households - many of them low-income households with low-skilled workers - have accumulated few assets thus far and are likely to find themselves dependent on government benefits in retirement. For those in low-income households, Social Security benefits may be sufficient to maintain working age consumption because Social Security benefits will replace a larger share of their earnings. Other households in the low-saving group could face a significant decline in their standard of living during retirement.

For the remaining quartile of boomer households, the evidence is more mixed. Studies that use optimistic assumptions conclude that those households are reasonably well-prepared. For instance, if those households earn fairly high returns on their savings, work until they qualify for full Social Security benefits, and draw on their housing equity to finance some of their consumption during retirement, most of them should be able to maintain their current living standard. However, studies that use more pessimistic assumptions conclude that members of those households may face significant shortfalls if they earn relatively low returns on their savings, retire before age 62, and never choose to draw on their housing equity. Housing equity is important as home ownership is viewed by many as a savings instrument. The ability to draw on that equity may be a growing demographic issue as the increasing number of older home-owners may find themselves competing for the smaller ranks of young home-buyers.

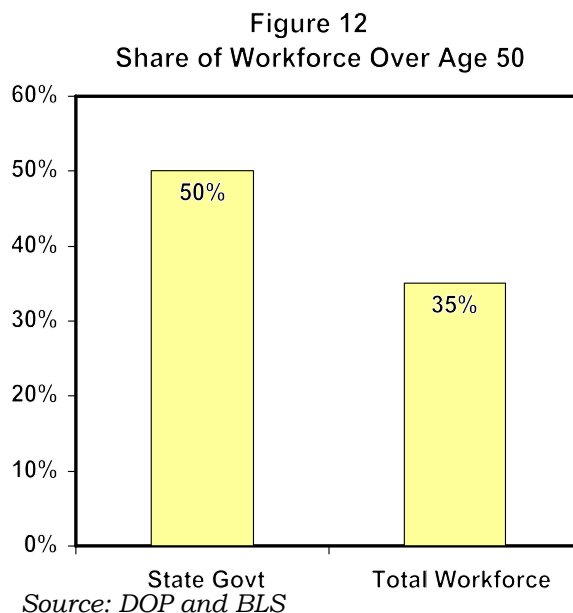
For households facing shortfalls, the CBO suggests that relatively small changes in behavior can have surprisingly large effects. For example, on average, for each year that people who have reached age 62 postpone retirement, they reduce their need for retirement savings by about five percent. An extra year of work also increases their Social Security benefits by several percent. Taken together, these effects lessen the total

amount that people need to save, and the additional year(s) working give them time to save more and earn returns on the assets they have already accumulated.

Nearly all the studies that the CBO reviewed assumed that Social Security and other government benefits will be paid as prescribed by current law. However, budgetary pressures could result in lower benefit levels for future recipients. Because baby boomers in the lowest income quartile are likely to depend on government benefits for nearly all of their income in retirement, their current prospects depend heavily on the future of Social Security.

I. ***Boomers in State Government***

Baby boomers are a significant part of Washington State's public sector workforce. More than 50% of state employees are 45 or older, and 15% are 55 or over. In the state workforce at large, more than 36% of employees are 45 or older and about 14% are 55 or over (see Figure 12). According to the Department of Personnel (DOP), the state will experience significantly higher turnover in the near future due to increasing retirement rates, with some agencies and job categories impacted to a much greater extent than others.



With more than 50% of executive level and 30% of mid-level managers eligible to retire by 2005, agencies will be challenged to replace highly skilled and experienced employees, especially in occupations and locations where the labor market is particularly competitive (DOP).

In response to these trends, the following are among the recommendations of the Task Force on the Changing Age Profile of the Washington State Government Workforce published by the Department of Personnel (2000):

- Explore options to help retain experienced workers (such as scheduling flexibility, tele-commuting, assignment or career changes, leave options and downshifting).
- Eliminate barriers to post-retirement employment and/or allow exceptions so that agencies can provide health care coverage as an incentive for retirees to work part-time. To this end, the DOP is currently developing a pool of retirees interested in state positions.

Both national and state trends indicate that there is a need to encourage experienced workers and retirees to stay within the workforce, even if only on a part-time basis. Based on the income statistics summarized above, it appears that many of those over age 65 have inadequate savings and are indeed working.³

J. ***The Aging Population***

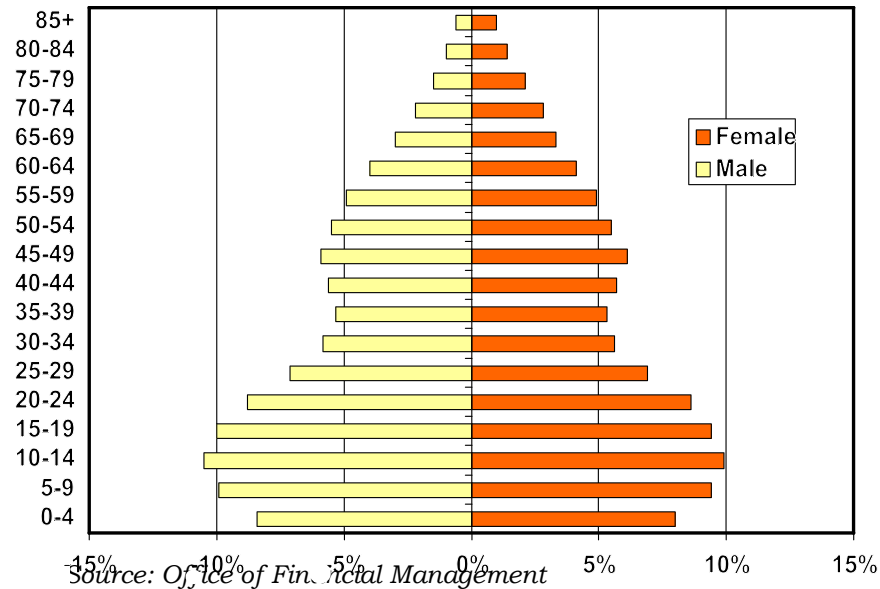
An aging population has distinct needs, and also has distinct impacts on retirement system costs and designs. Living longer is obviously more costly. But living longer will also have a bearing on when workers want to retire.

How has Washington's population aged? An examination of age cohorts from 1970 and the forecasted figures for 2030 provides a dramatic contrast.

In 1970, the distribution of Washington's population was distinctly young. The largest 5-year cohort was the 10-14 age group (see Figure 13); this being the final wave of baby-boomers. There was an obvious

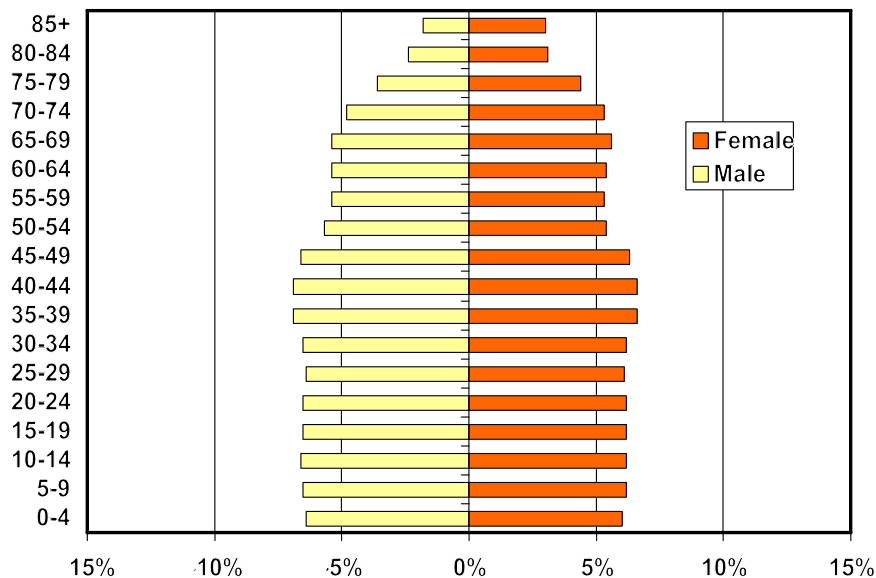
“waist” in the pattern because of the lower birth rates during the “Great Depression”. After age 50, each succeeding older cohort held significantly fewer members.

Figure 13
Washington Population Shares by Age and Sex: 1970



By 2030, the population of Washington will be significantly older. The pattern holds much fewer young people, and in contrast to the 1970 figures, the largest population cohorts will be those in their mid-thirties to mid-forties (see Figure 14). This is the result of the aging of those who were 10-14 years of age in 1970, plus those who came to Washington in the intervening years. There will no longer be the gradual diminished populations beginning at age 50. Only after age 70 will the decreases be most evident.

Figure 14
Washington Population Shares by Age and Sex: 2030



Source: Office of Financial Management

K. **National Population Trends**

The U.S. population has been growing older since the nation was founded. This long-trend is the inevitable result of two factors: (1) women have generally been having fewer children than in previous generations; and (2) individuals have been living longer.

Immigration, the other key factor in U.S. demographics, also plays a role. Immigrants are disproportionately prime-age adults, and tend to have higher fertility rates than native born Americans. Thus, the decline in immigration after the First World War contributed to population aging in the mid-twentieth century. The recent rise in immigration will slow the aging process too, but only if the flow of immigrants is relatively constant.

As the result of a more urbanized population base, a higher likelihood of children surviving to maturity, and increased birth control, fertility rates have declined dramatically from the beginning of the 19th century. In this long-term context, the baby-boom was a demographic deviation that temporarily interrupted the decline in fertility, with the subsequent baby “bust” bringing fertility back to its long-term historic trend.

The other demographic factor driving the aging of the population is increased life expectancy. In 1935 when Social Security was enacted and the retirement age was set at 65, life expectancy at birth was 59.9 years for men and 63.9 years for women. At age 65, men could expect to live another 12 years and women another 13. As of 2001, life expectancy at birth was 74.4 years for men and 79.8 years for women. A man age 65 in 2001 could expect to live another 17 years. A woman age 65 in 2001 could expect to live another 20 years. By 2080, life expectancy at 65 is expected to be 20 more years for men and 23 more years for women. The outlook for 2080 reflects the long-term trends in fertility and life expectancy, and not the so-called baby boom.⁴

As Americans age, pay-as-you-go benefits such as Social Security are jeopardized as there are fewer workers to support each pensioner. The possibility of tax increases, benefit cuts, and ever greater public debt are the unpopular budget choices associated with Social Security reform.

As a result of aging, pre-funded plans like Washington's are becoming more expensive; benefits must be paid over a longer period. For those who depend more on defined contribution plans or hybrid plans, like plan 3s, longer retirement periods mean a greater risk of outliving retirement benefits. And as shown earlier, the longer the retirement period, the greater the risk of higher inflation. Finally, as the population ages, health care costs increase significantly.

L. *Benefits, Compensation and Retirement*

Another factor in determining the adequacy of retirement income is the extent to which it is expected to pay for other non-retirement benefits. Employment benefits have become an increasingly large part of the public employee's compensation package. These benefits include not just retirement plans, but also holiday, vacation, personal, funeral, jury duty, military, family, and sick leave; short-term disability, long-term disability, and life insurance; medical, dental, and vision care; and legally required benefits – unemployment insurance and worker's compensation.

As these benefits command a higher share of the compensation package, particularly the "in lieu of wages" benefits like health care insurance, the difference between what is provided during employment and what is provided during retirement grows. As a result, the real replacement

value of retirement benefits are lessened. According to the Public Employee's Benefits Board an active PERS member with a spouse and child will receive, in 2004, a tax-free health care benefit from their employer worth approximately \$900 per month -- over \$10,000 per year. As a result, the compensation of the average PERS employee is over \$55,000 per year because of the benefits that supplement a \$45,000 salary. For a 30-year employee, the current benefit structure replaces about 60% of salary, but less than 50% of compensation (see Figure 15). Because of the fixed nature of the health care benefits, lower wage members' retirement benefits replace less of their "total" compensation, while for higher wage members the replacement rate is more.

Figure 15
Benefit Analysis: Salary and Health Insurance

	Salary for Retirement	Salary + Pre-retirement Health Insurance
Benefit Base	\$45,000	\$55,000
Retirement Benefit	\$27,000	\$27,000
Replacement Rate	60%	49%

Retirement benefits relative to "total" compensation is an issue because of the growing cost of health care and the differing definitions of retirement compensation in Washington State. The statutory language in the PERS, SERS, and TRS retirement chapters limits compensation to essentially wages and salaries. The statutory language governing workers compensation benefits, which includes disability retirement, uses a definition of compensation that includes, "...wages, medical, dental, and vision benefits; room and board, housing, fuel, bonuses, and tips."

Note: Statutory language in the PERS and TRS plans includes the term "average final compensation" but define compensation so as to exclude all other components of the compensation package save wages and salaries. The LEOFF and State Patrol plans use the statutory term "average final salary."

M. ***Rising Health Care Expenditures***

Of the risk issues facing retirees today, the cost of health care is probably the most important. As health care costs rise beyond normal inflation, they command a greater share of retirees' income, forcing them to scale back on other living expenses and thus diminishing the overall adequacy of their retirement benefit.

For much of the 1990's, health care costs in this country were held in check. With a tight labor market, employer-provided health care was a competitive necessity to attract and retain employees and the ability to control costs made these popular benefits economically feasible for employers to offer.

Recently this trend began to reverse. In 2001, employers experienced an average health care premium increase of 13%.⁵ The National Conference of State Legislatures, citing Deloitte & Touche's September 2003 Employer Survey, reports that the costs of employer-sponsored health care plans rose 14.9% in 2003, from an annual \$5,239 per employee in 2002 to \$6,020 per employee. Survey respondents predicted that their 2004 plan costs would rise again an average of 14.3% to \$6,880 per employee.

Nationally, health care spending is projected to be \$1.7936 trillion, or 15.5% of the total gross domestic product (GDP) in 2004. This will be \$6,167 per capita.⁶ In the next 10 years health care spending is expected to increase further. According to the Office of the State Actuary at the Centers for Medicare and Medicaid Services, health care spending could reach 18.4% of GDP.

Health care spending encompasses significant portions of federal, state and local budgets as well as a huge private sector market. As of January 1, 2004, 14 states reported a total employer/employee premium for family coverage of more than \$900 per month according to the 2004 State Employee Benefits Survey by Workplace Economics Inc., a Washington, DC consulting firm. Fifteen states still pay the full cost of health care coverage for individual active employees, while just five states pay the full premium for family coverage. In most states, the amount paid by the employee and the state depends on the health plan and level of coverage selected by the employee. In four states - Illinois, Kansas, New Mexico, and West Virginia - the portion of the premium paid by the

employee varies by salary. Forty-three states now offer pre-tax flexible spending accounts to assist employees with medical, dental, vision, life insurance, and other expenses not covered by health plans.

In the State of Washington, the price tag to provide health care coverage to state employees increased about 20% in 2003, with both state employees and state government paying more. The Director of the Health Care Authority attributed this increase to a variety of factors, including the runaway increases in prescription drug costs, the aging workforce, and demands from doctors and other providers for higher reimbursements, and new technologies.⁷

According to Melissa Ahem, a health care economist and associate professor of health policy and administration at WSU Spokane, some of the driving forces behind rising health care costs are: consumers who want it all, from free choice of physician and loaded benefit packages to unlimited services; increasing numbers of uninsured, with associated costs for care delivered in hospital emergency rooms; increased direct-to-consumer marketing of pharmaceuticals; lack of personal responsibility for health, with more obesity, diabetes, heart disease, etc.; and the huge number of baby boomers moving rapidly toward being Medicare recipients.

Individual health care expenses are impossible to predict, but even for healthy retirees, health care can be expensive. Moreover, paying for long-term care can wreak havoc on retirement savings. Long-term nursing home care often costs \$50,000 or more per year, and Medicare covers only about 50% of seniors' regular health expenses for people 65 and older, excluding nursing home care. According to the Administration on Aging, in the year 2000 health care costs accounted for 12.6% of total spending by Americans 65 and older, more than double the 5.5% average for all age groups.⁸

N. ***Retiree Health Benefits Comparisons with Other States***

In Washington, state, K-12, and higher-ed PERS retirees, SERS retirees, and TRS retirees are allowed to continue the same health insurance by paying the same premium as their employer paid when they were active members. For a retiree who is not yet eligible for Medicare (age 65), current premiums can range from \$313 per month for a single person to \$1,024 for a member with a spouse and children.

Washington's retirees health care insurance premiums are subsidized. Typically, health insurance premiums increase as policy holders age. To pay the same premiums as younger active members, Washington State must make up the difference (i.e., subsidize retiree health benefits). In the 2003-05 biennium, according to the Office of Program Research, the state will pay close to \$223 million dollars to subsidize health care insurance for Medicare eligible and non-Medicare eligible retirees.

Allowing retirees to pay subsidized premiums to continue their health coverage is a common benefit strategy employed by other states as illustrated in the following table. Of the systems examined, CalPERS, CalSTRS, Colorado, and Ohio provided a significant payment for retiree health insurance.

Figure 16
Retiree Health Care Provisions by Select Retirement Plan

System	Pre-Medicare Eligible	Medicare Eligible
Cal PERS	Recent members need 20 yrs. service to receive 100% of state retiree medical contribution.	Member are eligible for supplemental benefits.
Cal STRS	Depends on bargaining agreement -- may be as much as full medical coverage depending on School District.	Members receive regular Medicare coverage
Colorado PERA	Members and dependents are eligible for PERA Care: subsidized medical, dental, and vision plans.	Members enrolled in Medicare part B are also eligible for PERA Care.
Florida (FRS)	Members may continue in employer provided group insurance plan and receive a subsidy of \$5 per year of service to a maximum of \$150.	Members continue to receive the \$5 per year of service subsidy to a maximum of \$150 per month
Idaho (PERSI)	Members are allowed to continue coverage in the group medical plan.	Members may purchase supplemental depending on employer.
Iowa (IPERS)	Members are allowed to continue with insurance group.	Members need to have both Parts A and B of Medicare and state becomes secondary payer.
Minnesota (MSRS)	Members are allowed to continue with insurance group (may pay into Health Care Savings Plan when employed.)	Members are eligible for a Medigap policy

System	Pre-Medicare Eligible	Medicare Eligible
Missouri (MOSERS)	Members and family are eligible to participate in any employer provided group insurance plans	Members and family are eligible to participate in any employer provided group insurance plans
Ohio (OPERS)	Majority of health premiums paid by OPERS. Remaining premiums deducted from the recipient's monthly benefit check.	Medicare part B reimbursed. Ohio plans become secondary payers.
Oregon PERS	Members may purchase group health and dental insurance.	Retiree may purchase Medicare companion insurance, state provides \$60/month subsidy
Seattle (SCERS)	Members may continue coverage at group rates	Medicare supplemental insurance available

All 50 states make health insurance available to retirees up to the age of 65 and 48 states provide coverage under the state plan for retirees age 65 or older. In 11 states, the state pays the full cost of individual coverage for retirees under age 65, who are not yet eligible for Medicare. Seventeen states pay the full premium for Medicare-eligible retirees over the age of 65. Several states reported that the retiree's share of health care premiums depends upon the date hired, date of retirement or years of service at retirement.⁹

When public employers provide health benefits they insulate their employees from these costs. While many public employees must make co-payments to their health care plans, they receive benefits of much greater value than the costs they bear. Upon retirement most public employers no longer provide such insulation, as is shown in the above table, and retirees under the age of 65 find themselves in a costly market for which they must spend a significant portion of their retirement benefits. A member with 30 years of service and a final salary of \$45,000, who retired before age 65, could spend over 1/3 of their annual retirement benefit on health care insurance premiums each year.

Conclusion

A report on the adequacy of retirement benefits is obliged to cover numerous topics. This report compared plan 1 and plan 2 designs and policies in the Public Employee's Retirement System. The report also identified some of the demographic and economic trends that affect the adequacy of retirement benefits, in particular inflation, longevity, personal savings, and health care.

The report illustrated how Washington retirement benefits maintain or lose their value over time in specific scenarios, comparing benefits among PERS 1 and PERS 2 retirees. Finally, several peer systems (states and a city) were examined for comparisons.

Highlights

1. There is no magic income replacement ratio – anywhere from 60% to 90% may be adequate depending on retirement plan provisions and personal needs. Typically, replacement ratios are based on pre-retirement salaries, and do not account for benefits such as health insurance.
2. In 2002 Americans over age 65 depended slightly more on income from work than they did on income from retirement plans, suggesting that there is a significant disconnect between behavior and the three-legged stool model, and a growing desire for a phased retirement.
3. Baby boomers in the lowest quartile of income distribution will depend almost entirely upon Social Security and Medicare benefits for nearly all their retirement income.
4. The population and workforce are aging due to long-term trends in fertility and life-expectancy, not just because of the baby boom. These trends are putting extreme pressure on pay-as-you-go benefits such as Social Security.
5. Individuals can reduce their need for retirement income by as much as five percent for each year they postpone retirement, assuming federal benefits continue to be paid as provided by current law.
6. Health care spending is currently 15.5% of the Nation's Gross Domestic Product (GDP) and is projected to continue to increase to 18.4% of GDP in 2013.
7. The cost of retirement is increasing while employer funding for retirement benefits, personal savings rates, and Social Security benefits are decreasing.
8. Retirement education leads to changes in personal savings behavior.
9. In Washington, the earlier the retirement, the greater the difference in the income replacement ratio between the Plans 1 and 2 – at age 55 initial benefits in plan 1 can replace nearly 60% of final pay but be as little as 17% of final pay in plan 2.
10. In Washington, there is a significant difference between the Plans 1 and 2 with respect to maintaining the value of the initial retirement benefit over time. The difference is magnified under the earlier retirement ages available under the Plans 1. Even in concert with Social Security and the Uniform COLA, during periods of moderate inflation PERS 1 benefits will lose purchasing power while PERS 2 benefits will retain theirs.

Endnotes

1. "Future Retirees at Risk," *American Prospect*, Alicia Munell, May 4, 2004.
2. Munell, *supra*
3. For a complete summary of the Washington's Task Force's recommendations and for statistics showing retirement eligibility by state agency, visit the DOP website at <http://hr.dop.wa.gov/publications/default.htm>.
4. Munell, Alicia H., "Population Aging: It's not Just the Baby Boom," April 2004.
5. Committee on Education and the Workforce, *Sounding the Alarm: Rising Health Care Costs Increase the Ranks of the Uninsured*.
6. *Health Affairs*, 2/11/04.
7. For a comparison of 2002 vs. 2003 employee contributions for health care costs, see the Health Care Authority's Press Release "State employees will pay more for health insurance," August 6, 2002 at www.hca.wa.gov.
8. "Retirement Blues" by Anne Richardson, *Contingencies*, September/October 2003, p.22.
9. BNA Health Care & Benefits, Vol 31. No. 17, 915-916 (April 27 2004).

Select Committee on Pension Policy

Military Service Credit

(June 8, 2004)

Issue

The Executive Committee of the SCPP recommended on April 20, 2004 that the full committee receive a June briefing on current military service credit provisions in the Washington State Retirement Systems. The Executive Committee asked that special attention be paid to inconsistencies between plan provisions.

Staff

Laura Harper, 360-586-7616

Members Impacted

All members of Washington's retirement systems may avail themselves of some form of military service credit. "Interruptive" military service credit is available to those who interrupt public employment to serve in the uniformed military branches of the United States. This type of service is governed by the federal Uniformed Services Employment and Re-employment Rights Act (USERRA)¹. The act is described in more detail under the heading "Current Situation."

In addition, two of Washington's closed plans, PERS 1 and WSP 1, allow members with 25 years of service credit to receive up to five service credit years for "prior" military service (military service which took place prior to retirement system membership). This service credit is available at no additional cost to members. Prior military service credit is not available to members of LEOFF 1 or TRS 1, nor is it available to any members of the Plans 2 or 3.

Incidence of Prior Military Service			
	Percent with Military Service	Average Military Service Months	Overall Average Additional Service Years
PERS 1*			
Males	48%	37	1.48
Females	1%	35	0.03
WSP**	43%	32	1.15

Members with 25 years of service may receive up to 5 years of military service credit

*Members of PERS Plan 1 may use certain prior military service as well as interruptive military service

** Members of WSP Plan 1 may use all prior military service as well as interruptive military service

Members of WSP Plan 2 (those commissioned on or after January 1, 2003) may use only interruptive military service

The above table summarizes the incidence of prior military service in PERS 1 and in the WSP Plans. The table below compares the percentages of male and female members in PERS 1 and the WSP.

Plan Membership by Gender*					
	Total	Male		Female	
PERS 1	21,737	9,586	(44%)	12,151	(56%)
WSP	1,035	959	(93%)	76	(7%)

*At September 30, 2002

Current Situation

Interruptive Military Service: Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). USERRA was signed into law in 1994, with amendments made in 1996, 1998 and 2000. This law provides for the restoration of retirement plan benefits for members who leave employment to serve in the uniformed military branches.

For employers, the fundamental requirement of USERRA is to fund pension benefits that a re-employed participant did not receive due to qualifying military service. The employee must be treated for vesting and benefit accrual purposes as if he or she had remained continuously employed. Employers do not have to begin making up pension contributions until after the veteran returns to civilian employment with the same employer. Employers may fund makeup contributions over a period of three times the military service period, not to exceed five years. A rehired veteran is not entitled to missed allocations for any lost earnings on makeup contributions.

Generally, rehired veterans have up to three times the period of service - not to exceed five years - to make up missed employee contributions. The amount of makeup contributions is subject to the limits that would have applied during the military service period. No interest is charged on the contributions, because rehired veterans can only be charged the amount they would have been permitted or required to contribute had they remained continuously employed throughout the period of military service.

Prior Military Service: As stated above, there is an inconsistency with respect to retirement plan members' ability to receive service credit for prior military service. This benefit is only available to members of WSP 1 and PERS 1. All other plan members are only allowed service credit for interruptive military service.

Members of PERS 1 and WSP 1 must have 25 service credit years to be eligible to receive credit for military service prior to retirement plan membership. Total interruptive and prior military service credit cannot exceed five years, and in both plans the members must restore all withdrawn accumulated contributions in order to receive credit for the prior service. No member payments are required for prior military service credit.

History

Military service credit was reviewed by the Joint Committee on Pension Policy (JCPP) in 1988 and by the Executive Committee of the JCPP in 1997. In 1988 military service credit was evaluated as part of a comprehensive analysis of the provisions for granting service credit. Upon completion of its study, the JCPP concluded that the state's policy was not to grant additional service credit for

prior military service. In 1997, the JCPP Executive Committee heard an update on military service credit but the issue was not heard by the full committee.

Since 1996, two JCPP bills on military service credit passed in the legislature, and both were to conform Washington law to federal law (USERRA). At least twenty more bills were filed to expand opportunities to acquire military service credit, but none passed.

Due to the war in Iraq there has been a renewed interest in the effects of military service on employee benefits. During the 2004 legislative session, the OSA tracked five non-SCPP bills concerning military service, none of which passed. Two of these bills, HB 2415 and SSB 6071 would have expanded the definition of “veteran” for various purposes. HB 2415 would have expanded the definition of veteran to include a U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the Department of Defense or its agents during the Korean and Vietnam wars. SSB 6071 would have exempted veterans of the Afghanistan conflict and Persian Gulf War II from certain increases in tuition and fees for higher education. Another bill, 2SSB 6578, would have provided up to two years of military leave during which employees of the state would receive one-half of the difference between their normal pay and their combined military pay and allowances.

The remaining two bills, SB 6743 and SB 6492, would have allowed members of TRS 1 with 25 service credit years to receive up to five years of service credit for prior military service. The two bills differed in the amount of contributions members would be required to pay to receive the service credit: SB 6492 required a contribution “as determined by the Director of the Retirement Systems;” and SB 6743 required “six percent of the average earnable compensation for the two highest compensated consecutive years of service for each year of prior military service credited.” Currently, no payments are required from members of PERS 1 and WSP 1 who receive credit for prior military service.

Examples

- A. **Prior Military Service:** The following example illustrates how the ability to receive up to five years of prior military service credit can enhance the retirement benefit of a PERS 1 member. A PERS 1 member retiring with

25 years of service credit and an average final compensation (AFC) of \$45,000/year would receive a monthly retirement allowance of \$1,875 (before reductions for optional forms of payment).

$$\frac{2\% \times 25 \text{ years} \times \$45,000}{12 \text{ months}} = \$1,875$$

If that same member also had five years of military service before becoming a state employee, his or her monthly retirement allowance would increase to \$2,250 based on 30 years of service credit instead of 25.

$$\frac{2\% \times 30 \text{ years} \times \$45,000}{12 \text{ months}} = \$2,250$$

- B. ***Interruptive Military Service:*** The following hypothetical example illustrates how a member who is called into active duty may obtain service credit for interruptive military service. Consider a member of the Washington State Patrol Retirement System (WSPRS) who was hired July 1, 1999 and was called into active service from July 1, 2003 through June 30, 2004 after completing four years of service with WSPRS. This member's salary was \$40,000 when he left employment and he was required to make an employee contribution of 2% of salary during the period of active service. There was no required employer contribution. Assuming that the member is re-employed upon his return from active duty (according to the terms and conditions set forth in USERRA), the member has three years to pay back the contributions he would have paid had he remained continuously employed. Therefore his total payment obligation is:

$$2\% \times \$40,000 \times 1 \text{ year} = \$800$$

This member has up to three years to repay the \$800. Assuming repayment, the member is treated as if he had been continuously employed and his service credit had continued to accrue while away on active duty. The member's vesting date (based on a five-year vesting period for this plan) will be July 1, 2004. *Note:* the member's payback will vary from plan to plan, as member contribution rates differ throughout the Washington State Retirement Systems. See the 2004 SCPP Orientation Manual for more information on contribution rates.

Policy Analysis

Prior Service: As noted above, the JCPP concluded in 1988, upon completion of its study of service credit, that the state's policy was not to grant additional (prior) service credit for military service.

Policies that *support* granting prior military service credit in other Washington plans include the following:

- Recognition of Service: Granting military service credit that is either partially or wholly funded by the state would recognize the service rendered by individuals to our country.
- Service in the military might have delayed the beginning of a member's career with the state and deprived the member of the opportunity to earn a better retirement benefit.
- Parity: Prior military service is provided only to the PERS and WSP Plans 1. There has been pressure from members of other systems for similar benefits. RCW 41.50.005(1) sets forth as retirement policy that the retirement systems of the state shall provide similar benefits whenever possible.

The following policies would *oppose* granting prior military service credit in the other plans:

- Cost: Granting additional military service credit to plan members without requiring payment of the full actuarial cost results in additional liabilities. For plans like TRS 1 that are not fully funded, this means additional unfunded liability and a lower funding ratio.
- Granting additional military service credit at little or no cost would provide a benefit for periods when no service was rendered within the plan.
- The last military draft ended in 1973. Since military service is now voluntary, the interruption of a public employee's career to enter the uniformed services prior to entering public employment is voluntary, which can be seen as reducing the need for taxpayers to pay for retirement benefits during such periods.

While a future change in federal policy is always a possibility, there are no official plans in Washington for reinstating the military draft at this time. Congress would have to authorize it, and has shown no interest in taking such a step. Defense Secretary Donald Rumsfeld indicated in March that he would not ask Congress to authorize a draft. However, the Selective Service System, the independent federal agency that would organize any conscription, has a special system to register and draft health care personnel ages 20 to 44 if necessary in a crisis. The agency is planning to expand this system to be able to rapidly register and draft computer specialists and linguists, should the need ever arise. Seattle Post-Intelligencer, "Agency Initiates Steps for Selective Draft," March 13, 2004.²

Interruptive Service: With respect to interruptive service, state retirement policy is constrained by the requirements of USERRA. All public employers must meet the minimum requirements of this federal law. However, states have the discretion to go beyond USERRA and grant benefits for the period of interruptive service that are more generous than those available under the act. The goal of USERRA is to treat employees who are called to active duty as if they had been continuously employed. Employers who choose to go beyond USERRA may reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. They may also provide all or part of the member's salary during the period of active service.

Comparison with other States: The following is a comparison of military service credit provisions in Washington's neighboring and peer states:

Retirement System	Prior Service	Interruptive Service
1. Washington State ³	Prior with 5-year cap in PERS 1 and WSP 1 only at no cost to member; not available in other plans	Interruptive as provided in USERRA
2. City of Seattle ⁴	Prior with 5-year cap at actuarial cost	Interruptive as provided in USERRA
3. Oregon (PERS and PSRP) ⁵	None	Interruptive as provided in USERRA
4. Public Employee Retirement System of Idaho (PERSI) ⁶	None	Interruptive as provided in USERRA, but at no cost to member unless employer pays <i>full</i> salary while on active duty

Retirement System	Prior Service	Interruptive Service
5. CalPERS ⁷	Prior with 4-year cap, or Peace Corps and AmeriCorps VISTA with 3-year cap, at actuarial cost	Interruptive as provided in USERRA, but at no cost to member if re-employed within 6 months of discharge
6. CalSTERS ⁸	None	Interruptive as provided in USERRA
7. Colorado PERA ⁹	None	Interruptive as provided in USERRA, but at no cost to member unless employer pays salary while on active duty
8. Florida Retirement System (FRS) ¹⁰	Depending on hire date, prior with 4-year cap is available at statutory cost (% of salary + interest)	Interruptive as provided in USERRA
9. Iowa (IPERS) ¹¹	Prior at actuarial cost	Interruptive as provided in USERRA
10. Minnesota (SRS and TRA) ¹²	Prior at actuarial cost	Interruptive as provided in USERRA
11. Missouri (MOSERS) ¹³	Prior with 4-year cap at statutory cost (in an amount equal to the state contribution) plus interest	Interruptive as provided in USERRA
12. Ohio (OPERS) ¹⁴	Prior with 5-year cap (+an additional 5 years if a POW) at percentage of salary as set by Board (cost cannot be less than 50% of actuarial cost)	Interruptive as provided in USERRA

The provisions for interruptive military service credit are relatively consistent due to the requirements of USERRA. A few states have gone beyond USERRA and provided interruptive service at little or no cost. With respect to prior service, there is a wide range of approaches. Some states do not allow service credit for prior military service. Others allow it, but impose limits on the amount of prior service. The cost to members ranges from \$0 to full actuarial cost.

Some employers in some states may pay all or part of a members salary when the member is called for an extended period of active military service. In Idaho, members who are receiving *full* salary during active service must continue their

employee contributions in order to continue to receive service credit. The ability to continue to accrue service credit during the period of interruptive service may increase benefits to a survivor in the event that the member dies while on active duty.

The U.S. Congress is paying some attention to employee benefits for those who are called into active military service. On April 21, 2004 the House of Representatives passed HR 1779, which would allow penalty-free withdrawals from qualified retirement plans for those called into active duty for at least 179 days (approximately six months). The contributions may be repaid, but there is no requirement that they must be repaid. As of May 28, 2004, this bill was in the Senate Finance Committee.¹⁵

Conclusion

There are two types of military service for which service credit is available: prior and interruptive. Interruptive service is handled the same in all Washington retirement plans, as it is governed by federal law. With respect to prior service, up to five years of service credit is available to members of two plans only: PERS 1 and WSP 1. Members of PERS 1 and WSP 1 must have 25 years of service credit in their plan and reinstate any withdrawn contributions in order to be eligible for the prior military service credit. Members of PERS 1 and WSP 1 pay no cost for this benefit.

Endnotes

1. For complete information about USERRA, see the USERRA Advisor, <http://www.dol.gov/elaws/userra.htm>.
2. For the complete text of this article, see http://seattlepi.nwsourc.com/national/164693_draft13.html.
3. For more information about military service credit in Washington see <http://www.drs.wa.gov>, the Department of Retirement Systems' website.
4. The provisions of the Seattle Municipal Code that govern the City Employees' Retirement System are found in Chapter 4.36 at <http://clerk.ci.seattle.wa.us>. See Section 4.36.124.
5. See links to these plans and the administrative code that governs them at <http://www.pers.state.or.us>.

6. For more information, see “Military Service and your PERSI Benefits” on the Idaho PERSI website, www.persi.state.id.us.
7. See the CalPERS website, www.calPERS.ca.gov.
8. Sources include the CalSTERS website, www.calSTERS.com and Lexis-Nexis, California Code Sections 22850 et seq.
9. See www.copera.org, “How Military Leave Affects Colorado PERA Members.”
10. See Section 121.111 of the Florida statutes, <http://www.flsenate.gov/statutes>.
11. See www.ipers.org, “Buying Service - Veteran’s Credit Buy-In.”
12. See Sections 352.27, 352.275, 356.55, 354.53 and 354.33, Minnesota Statutes, www.revisor.leg.state.mn.us.
13. See <http://www.moga.state.mo.us/statutes/chapters/chap104.htm> for statutes governing military service credit in the Missouri State Employees’ Retirement System, Chapter 104.
14. See www.opers.org/aboutOPERS/membership/servicecredit.shtml and Sections 145.301 and 145.302, Ohio Revised Code, <http://onlinedocs.andersonpublishing.com>.
15. To track the status of HR 1779, visit <http://thomas.loc.gov>. This Act is cited as the “Guardsmen and Reservists Financial Relief Act of 2004.”

Select Committee on Pension Policy
August 17, 2004 – Meeting Planner
(July 2, 2004)

EXECUTIVE COMMITTEE AGENDA

- (A) OSA Budget?
- (B)
- (C)

FULL COMMITTEE AGENDA

- (1) Gain-sharing
- (2) Pension Funding Council Audit and Recommendations
- (3) SCPP Rules of Procedure?

Select Committee on Pension Policy

State Actuary Appointment Committee

(July 2, 2004)

Members:

Senator Joseph Zarelli
Senator Margarita Prentice
Representative Helen Sommers
Representative Barry Sehlin
SCPP Members:
 Senator Winsley
 Representative Conway
 Richard Ford
 Leland Geoke

Former JCPP Rules of Procedure (not assumed by SCPP):

RULE 10. Expenses. **The biennial budget submission for the office of the state actuary shall be approved by the executive committee.**

RULE 12. Other Staff.

- A. The state actuary shall have the authority to select and employ such research, technical, clerical personnel, and consultants as the state actuary deems necessary.
- B. **The number of permanent employees and the salary ranges for their positions shall be approved by the executive committee.**
- C. **The executive committee shall approve all personal service contracts in excess of \$5,000.00.**

- D. All staff members shall report to and be subject to the direction of the state actuary, and be exempt from the provisions of the state civil service law, chapter 41.06 RCW. **The state actuary shall advise the executive committee on personnel actions. Anyone terminated by the state actuary shall have the right of appeal to the executive committee.**
- E. **Grievance Procedure.** An employee who is dissatisfied with a personnel action or employment conditions shall bring the matter to their supervisor. If they continue to be dissatisfied, the employee may appeal to the State Actuary. **If the employee disagrees with the decision or action of the State Actuary, the employee may appeal to the chair or vice chair for action by the executive committee.**

SHB 1204 (Ch. 295, L of 03) – Creation of SCPP

“Sec. 5. The select committee on pension policy has the following powers and duties: ...

- (3) **Consult with the chair and vice-chair on appointing members to the state actuary appointment committee upon the convening of the state actuary appointment committee....”**

“Sec. 13.

(1) The state actuary appointment committee is created. The committee shall consist of: (a) The chair and ranking minority member of the house of representatives appropriations committee and the chair and ranking minority member of the senate ways and means committee; and **(b) four members of the select committee on pension policy appointed jointly by the chair and vice-chair of the select committee, at least one member representing state retirement systems active or retired members, and one member representing state retirement system employers.**

(2) The state actuary appointment committee shall be jointly chaired by the chair of the house of representatives appropriations committee and the chair of the senate ways and means committee.

(3) The state actuary appointment committee shall appoint or remove the state actuary by a two-thirds vote of the committee. When considering the appointment or removal of the state actuary, the appointment committee shall consult with the director of the department of retirement systems, the director of the office of financial management, and other interested parties.

(4) The state actuary appointment committee shall be convened by the chairs of the house of representatives appropriations committee and the senate ways and means committee (a) whenever the position of state actuary becomes vacant, or (b) upon the written request of any four members of the appointment committee.

“Sec. 1. RCW 44.44.030 and 2001 c 259 s 11 are each amended to read as follows:

(1) Subject to RCW 44.04.260, the state actuary shall have the authority to select and employ such research, technical, clerical personnel, and consultants as the actuary deems necessary, **whose salaries shall be fixed by the actuary and approved by the ((joint committee on pension policy)) the state actuary appointment committee**, and who shall be exempt from the provisions of the state civil service law, chapter 41.06 RCW.”

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

June 25, 2004

State Actuary Appointment Committee Members:

Senator Joseph Zarelli, Chair, Ways and Means Committee
Senator Margarita Prentice, Ranking Minority, Ways and Means Committee
Representative Helen Sommers, Chair, Appropriations Committee
Representative Barry Sehlin, Ranking Minority, Appropriations Committee

Dear Members:

We have appointed the following members of the Select Committee on Pension Policy (SCPP) to the State Actuary Appointment Committee in accordance with Section 13(1)(b), Chapter 295, Laws of 2003.

Chair, SCPP: Senator Shirley Winsley (Senator Karen Fraser effective July 13)
Vice Chair, SCPP: Representative Steve Conway
Richard Ford, representing Retirees
Leland Goeke, representing Employers

Sincerely,

Senator Shirley Winsley

Chair

cc: Senator Karen Fraser
Richard Ford
Leland Goeke

Representative Steve Conway
Vice Chair

Representative Gary Alexander

Elaine M. Banks
TRS Retirees

Marty Brown, Director*
Office of Financial Management

Senator Don Carlson

John Charles, Director
Department of Retirement Systems

Representative Steve Conway*
Vice Chair

Richard Ford
PERS Retirees

Senator Karen Fraser

Representative Bill Fromhold

Leland A. Goeke*
TRS and SERS Employers

Bob Keller
PERS Actives

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Glenn Olson
PERS Employers

Representative Larry Crouse

Diane Rae
TRS Actives

Senator Debbie Regala

J. Pat Thompson
PERS Actives

David Westberg*
SERS Actives

Senator Shirley Winsley*
Chair

***Executive Committee**

Select Committee on Pension Policy

Rules of Procedure

RULE 1. Membership. The Committee shall consist of 20 members: two from each caucus of the legislature, four active members or representatives of active members of the state retirement systems, two retired members or representatives of retired members of the state retirement systems, four employer representatives, and the Directors of the Department of Retirement Systems and the Office of Financial Management.

The Directors of the Department of Retirement Systems and the Office of Financial Management may appoint alternates from their respective agencies for membership on the SCPP.

RULE 2. Meetings. The Select Committee on Pension Policy (SCPP) will typically meet once each month during the Legislative Interim. Additional meetings may be called by the Chair of the SCPP or Executive Committee as deemed necessary.

RULE 3. Rules of Order. All meetings of the SCPP, its Executive Committee, or any subcommittee created by the SCPP shall be governed by Reed's Parliamentary Rules, except as specified by applicable law or these Rules of Procedure.

RULE 4. Quorum. A majority of the 20 committee members shall constitute a quorum of the Full Committee (11 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.

RULE 5. Voting. A majority of the 20 committee members must vote in the affirmative for an official action of the SCPP to be valid (11 members), a majority of those committee members present must vote in the affirmative on procedural matters (at least 6 members), unless provided otherwise in statute or these Rules of Procedure. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or these Rules of Procedure.

RULE 6. Minutes. Minutes summarizing the proceedings of each SCPP meeting and subcommittee shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 7. SCPP Chair, Vice Chair, Executive Committee and Subcommittees. An Executive Committee shall be established and shall include five members. Reorganization elections shall take place at the first meeting of the year as follows: First the Chair

shall be elected and then the Vice Chair shall be elected. The Chair shall be a member of the Senate in even-numbered years and a member of the House of Representatives in odd-numbered years. The Vice Chair shall be a member of the House in even-numbered years and a member of the Senate in odd-numbered years.

Two members of the Executive Committee shall then be elected, one member representing active members and one member representing employers. In addition, the Director of the Department of Retirement Systems and the Director of the Office of Financial Management shall alternate membership on the Executive Committee. The Director of the Department of Retirement Systems will serve on the Executive Committee in odd-numbered years; the Director of the Office of Financial Management in even-numbered years.

Executive Committee members may designate an alternate to attend Executive Committee meetings in the event they cannot attend. Alternates shall be members of the SCPP who represent the same member group as the elected Executive Committee member.

Subcommittees of the SCPP may be formed upon recommendation of the Executive Committee. The creation of the subcommittee and appointment of members shall be voted on by the full SCPP.

RULE 8. Duties of Officers.

- A. The Chair shall preside at all meetings of the SCPP and Executive Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Executive Committee member may preside.
- B. The State Actuary shall prepare and maintain a record of the proceedings of all meetings of the SCPP Committee, Executive Committee, and SCPP Subcommittees.
- C. The Executive Committee shall perform all duties assigned to it by these Rules of Procedure, such other duties delegated to it by the SCPP, and shall set meeting agendas and recommend actions to be taken by the SCPP.
- D. A recommendation to refer an issue to the Assistant Attorney General will be approved by the Chair or by a majority vote of the Executive Committee. The Chair or the Committee will consider priorities of the SCPP of all legal issues and budget constraints in making this decision.

Advice from the Attorney General's Office to the Chair or the Committee may be subject to the attorney client privilege. When subject to the privilege, Committee members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Committee.

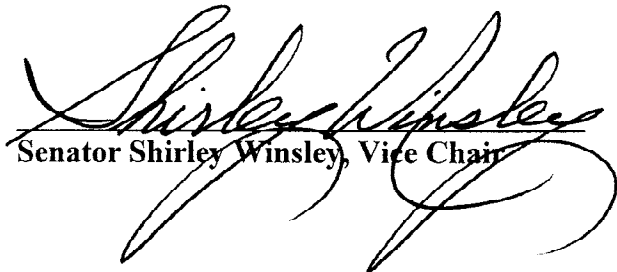
- E. The State Actuary may refer requests for information or services by Select Committee on Pension Policy members that are directly related to current Committee projects or proposals and/or require a significant use of OSA resources to either the Chair of the SCPP or the Executive Committee. Such requests will be approved by either the Chair or by a majority vote of the Executive Committee prior to initiation and completion by the OSA. The Executive Committee will consider priorities of all current OSA projects and budget constraints in making this decision.

RULE 9. Expenses. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

RULE 10. Staff. The Office of the State Actuary shall provide staff and technical assistance to the Committee.

Adopted September 16, 2003, by the Select Committee on Pension Policy.


Representative Steve Conway, Chair


Senator Shirley Winsley, Vice Chair

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 1204

Chapter 295, Laws of 2003

58th Legislature
2003 Regular Session

SELECT COMMITTEE ON PENSION POLICY

EFFECTIVE DATE: 7/27/03

Passed by the House April 26, 2003
Yeas 79 Nays 18

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate April 25, 2003
Yeas 48 Nays 0

BRAD OWEN

President of the Senate

Approved May 14, 2003.

GARY LOCKE

Governor of the State of Washington

CERTIFICATE

I, Cynthia Zehnder, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1204** as passed by the House of Representatives and the Senate on the dates hereon set forth.

CYNTHIA ZEHNDER

Chief Clerk

FILED

May 14, 2003 - 3:25 p.m.

**Secretary of State
State of Washington**

SUBSTITUTE HOUSE BILL 1204

AS AMENDED BY THE SENATE

Passed Legislature - 2003 Regular Session

State of Washington

58th Legislature

2003 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Fromhold, Delvin, Conway, Alexander, Pflug, Anderson, Cooper and Chase; by request of Joint Committee on Pension Policy)

READ FIRST TIME 03/04/03.

1 AN ACT Relating to creating the select committee on pension policy;
2 amending RCW 41.50.110, 44.44.040, 41.40.037, 41.45.020, 41.45.090,
3 41.45.110, 44.04.260, and 44.44.030; reenacting and amending RCW
4 41.32.570; adding new sections to chapter 41.04 RCW; creating a new
5 section; decodifying RCW 41.54.061; and repealing RCW 44.44.015,
6 44.44.050, and 44.44.060.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
9 to read as follows:

10 (1) The select committee on pension policy is created. The select
11 committee consists of:

12 (a) Four members of the senate appointed by the president of the
13 senate, two of whom are members of the majority party and two of whom
14 are members of the minority party. At least three of the appointees
15 shall be members of the senate ways and means committee;

16 (b) Four members of the house of representatives appointed by the
17 speaker, two of whom are members of the majority party and two of whom
18 are members of the minority party. At least three of the appointees

1 shall be members of the house of representatives appropriations
2 committee;

3 (c) Four active members or representatives from organizations of
4 active members of the state retirement systems appointed by the
5 governor for staggered three-year terms, with no more than two
6 appointees representing any one employee retirement system;

7 (d) Two retired members or representatives of retired members'
8 organizations of the state retirement systems appointed by the governor
9 for staggered three-year terms, with no two members from the same
10 system;

11 (e) Four employer representatives of members of the state
12 retirement systems appointed by the governor for staggered three-year
13 terms; and

14 (f) The directors of the department of retirement systems and
15 office of financial management.

16 (2)(a) The term of office of each member of the house of
17 representatives or senate serving on the committee runs from the close
18 of the session in which he or she is appointed until the close of the
19 next regular session held in an odd-numbered year. If a successor is
20 not appointed during a session, the member's term continues until the
21 member is reappointed or a successor is appointed. The term of office
22 for a committee member who is a member of the house of representatives
23 or the senate who does not continue as a member of the senate or house
24 of representatives ceases upon the convening of the next session of the
25 legislature during the odd-numbered year following the member's
26 appointment, or upon the member's resignation, whichever is earlier.
27 All vacancies of positions held by members of the legislature must be
28 filled from the same political party and from the same house as the
29 member whose seat was vacated.

30 (b) Following the terms of members and representatives appointed
31 under subsection (1)(d) of this section, the retiree positions shall be
32 rotated to ensure that each system has an opportunity to have a retiree
33 representative on the committee.

34 (3) The committee shall elect a chairperson and a vice-chairperson.
35 The chairperson shall be a member of the senate in even-numbered years
36 and a member of the house of representatives in odd-numbered years and
37 the vice-chairperson shall be a member of the house of representatives

1 in even-numbered years and a member of the senate in odd-numbered
2 years.

3 (4) The committee shall establish an executive committee of five
4 members, including the chairperson, the vice-chairperson, one member
5 from subsection (1)(c) of this section, one member from subsection
6 (1)(e) of this section, and one member from subsection (1)(f) of this
7 section, with the directors of the department of retirement systems and
8 the office of financial management serving in alternate years.

9 (5) Nonlegislative members of the select committee serve without
10 compensation, but shall be reimbursed for travel expenses under RCW
11 43.03.050 and 43.03.060.

12 (6) The office of state actuary under chapter 44.44 RCW shall
13 provide staff and technical support to the committee.

14 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.04 RCW
15 to read as follows:

16 (1) The select committee on pension policy may form three function-
17 specific subcommittees, as set forth under subsection (2) of this
18 section, from the members under section 1(1) (a) through (e) of this
19 act, as follows:

20 (a) A public safety subcommittee with one member from each group
21 under section 1(1) (a) through (e) of this act;

22 (b) An education subcommittee with one member from each group under
23 section 1(1) (a) through (e) of this act; and

24 (c) A state and local government subcommittee, with one retiree
25 member under section 1(1)(d) of this act and two members from each
26 group under section 1(1) (a) through (c) and (e) of this act.

27 The retiree members may serve on more than one subcommittee to
28 ensure representation on each subcommittee.

29 (2)(a) The public safety subcommittee shall focus on pension issues
30 affecting public safety employees who are members of the law
31 enforcement officers' and fire fighters' and Washington state patrol
32 retirement systems.

33 (b) The education subcommittee shall focus on pension issues
34 affecting educational employees who are members of the public
35 employees', teachers', and school employees' retirement systems.

36 (c) The state and local government subcommittee shall focus on

1 pension issues affecting state and local government employees who are
2 members of the public employees' retirement system.

3 **Sec. 3.** RCW 41.50.110 and 1998 c 341 s 508 are each amended to
4 read as follows:

5 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
6 section, all expenses of the administration of the department (~~((and))~~),
7 the expenses of administration of the retirement systems, and the
8 expenses of the administration of the office of the state actuary
9 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
10 (~~((and))~~) 43.43, and 44.44 RCW shall be paid from the department of
11 retirement systems expense fund.

12 (2) In order to reimburse the department of retirement systems
13 expense fund on an equitable basis the department shall ascertain and
14 report to each employer, as defined in RCW 41.26.030, 41.32.010,
15 41.35.010, or 41.40.010, the sum necessary to defray its proportional
16 share of the entire expense of the administration of the retirement
17 system that the employer participates in during the ensuing biennium or
18 fiscal year whichever may be required. Such sum is to be computed in
19 an amount directly proportional to the estimated entire expense of the
20 administration as the ratio of monthly salaries of the employer's
21 members bears to the total salaries of all members in the entire
22 system. It shall then be the duty of all such employers to include in
23 their budgets or otherwise provide the amounts so required.

24 (3) The department shall compute and bill each employer, as defined
25 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
26 each month for the amount due for that month to the department of
27 retirement systems expense fund and the same shall be paid as are its
28 other obligations. Such computation as to each employer shall be made
29 on a percentage rate of salary established by the department. However,
30 the department may at its discretion establish a system of billing
31 based upon calendar year quarters in which event the said billing shall
32 be at the end of each such quarter.

33 (4) The director may adjust the expense fund contribution rate for
34 each system at any time when necessary to reflect unanticipated costs
35 or savings in administering the department.

36 (5) An employer who fails to submit timely and accurate reports to
37 the department may be assessed an additional fee related to the

1 increased costs incurred by the department in processing the deficient
2 reports. Fees paid under this subsection shall be deposited in the
3 retirement system expense fund.

4 (a) Every six months the department shall determine the amount of
5 an employer's fee by reviewing the timeliness and accuracy of the
6 reports submitted by the employer in the preceding six months. If
7 those reports were not both timely and accurate the department may
8 prospectively assess an additional fee under this subsection.

9 (b) An additional fee assessed by the department under this
10 subsection shall not exceed fifty percent of the standard fee.

11 (c) The department shall adopt rules implementing this section.

12 (6) Expenses other than those under RCW 41.34.060((+2+)) (3) shall
13 be paid pursuant to subsection (1) of this section.

14 **Sec. 4.** RCW 44.44.040 and 1987 c 25 s 3 are each amended to read
15 as follows:

16 The office of the state actuary shall have the following powers and
17 duties:

18 (1) Perform all actuarial services for the department of retirement
19 systems, including all studies required by law. ~~((Reimbursement for
20 such services shall be made to the state actuary pursuant to the
21 provisions of RCW 39.34.130 as now or hereafter amended.))~~

22 (2) Advise the legislature and the governor regarding pension
23 benefit provisions, and funding policies and investment policies of the
24 state investment board.

25 (3) Consult with the legislature and the governor concerning
26 determination of actuarial assumptions used by the department of
27 retirement systems.

28 (4) Prepare a report, to be known as the actuarial fiscal note, on
29 each pension bill introduced in the legislature which briefly explains
30 the financial impact of the bill. The actuarial fiscal note shall
31 include: (a) The statutorily required contribution for the biennium
32 and the following twenty-five years; (b) the biennial cost of the
33 increased benefits if these exceed the required contribution; and (c)
34 any change in the present value of the unfunded accrued benefits. An
35 actuarial fiscal note shall also be prepared for all amendments which
36 are offered in committee or on the floor of the house of
37 representatives or the senate to any pension bill. However, a majority

1 of the members present may suspend the requirement for an actuarial
2 fiscal note for amendments offered on the floor of the house of
3 representatives or the senate.

4 (5) Provide such actuarial services to the legislature as may be
5 requested from time to time.

6 (6) Provide staff and assistance to the committee established under
7 (~~(RCW 46.44.050)~~) section 1 of this act.

8 NEW SECTION. **Sec. 5.** A new section is added to chapter 41.04 RCW
9 to read as follows:

10 The select committee on pension policy has the following powers and
11 duties:

12 (1) Study pension issues, develop pension policies for public
13 employees in state retirement systems, and make recommendations to the
14 legislature;

15 (2) Study the financial condition of the state pension systems,
16 develop funding policies, and make recommendations to the legislature;

17 (3) Consult with the chair and vice-chair on appointing members to
18 the state actuary appointment committee upon the convening of the state
19 actuary appointment committee established under section 13 of this act;
20 and

21 (4) Receive the results of the actuarial audits of the actuarial
22 valuations and experience studies administered by the pension funding
23 council pursuant to RCW 41.45.110. The select committee on pension
24 policy shall study and make recommendations on changes to assumptions
25 or contribution rates to the pension funding council prior to adoption
26 of changes under RCW 41.45.030, 41.45.035, or 41.45.060.

27 **Sec. 6.** RCW 41.32.570 and 2001 2nd sp.s. c 10 s 3 and 2001 c 317
28 s 1 are each reenacted and amended to read as follows:

29 (1)(a) If a retiree enters employment with an employer sooner than
30 one calendar month after his or her accrual date, the retiree's monthly
31 retirement allowance will be reduced by five and one-half percent for
32 every seven hours worked during that month. This reduction will be
33 applied each month until the retiree remains absent from employment
34 with an employer for one full calendar month.

35 (b) The benefit reduction provided in (a) of this subsection will

1 accrue for a maximum of one hundred forty hours per month. Any monthly
2 benefit reduction over one hundred percent will be applied to the
3 benefit the retiree is eligible to receive in subsequent months.

4 (2) Any retired teacher or retired administrator who enters service
5 in any public educational institution in Washington state and who has
6 satisfied the break in employment requirement of subsection (1) of this
7 section shall cease to receive pension payments while engaged in such
8 service, after the retiree has rendered service for more than one
9 thousand five hundred hours in a school year. When a retired teacher
10 or administrator renders service beyond eight hundred sixty-seven
11 hours, the department shall collect from the employer the applicable
12 employer retirement contributions for the entire duration of the
13 member's employment during that fiscal year.

14 (3) The department shall collect and provide the state actuary with
15 information relevant to the use of this section for the ((joint))
16 select committee on pension policy.

17 (4) The legislature reserves the right to amend or repeal this
18 section in the future and no member or beneficiary has a contractual
19 right to be employed for more than five hundred twenty-five hours per
20 year without a reduction of his or her pension.

21 **Sec. 7.** RCW 41.40.037 and 2001 2nd sp.s. c 10 s 4 are each amended
22 to read as follows:

23 (1)(a) If a retiree enters employment with an employer sooner than
24 one calendar month after his or her accrual date, the retiree's monthly
25 retirement allowance will be reduced by five and one-half percent for
26 every eight hours worked during that month. This reduction will be
27 applied each month until the retiree remains absent from employment
28 with an employer for one full calendar month.

29 (b) The benefit reduction provided in (a) of this subsection will
30 accrue for a maximum of one hundred sixty hours per month. Any benefit
31 reduction over one hundred percent will be applied to the benefit the
32 retiree is eligible to receive in subsequent months.

33 (2)(a) A retiree from plan 1 who has satisfied the break in
34 employment requirement of subsection (1) of this section and who enters
35 employment with an employer may continue to receive pension payments
36 while engaged in such service for up to one thousand five hundred hours
37 of service in a calendar year without a reduction of pension. When a

1 plan 1 member renders service beyond eight hundred sixty-seven hours,
2 the department shall collect from the employer the applicable employer
3 retirement contributions for the entire duration of the member's
4 employment during that calendar year.

5 (b) A retiree from plan 2 or plan 3 who has satisfied the break in
6 employment requirement of subsection (1) of this section may work up to
7 eight hundred sixty-seven hours in a calendar year in an eligible
8 position, as defined in RCW 41.32.010, 41.35.010, or 41.40.010, or as
9 a fire fighter or law enforcement officer, as defined in RCW 41.26.030,
10 without suspension of his or her benefit.

11 (3) If the retiree opts to reestablish membership under RCW
12 41.40.023(12), he or she terminates his or her retirement status and
13 becomes a member. Retirement benefits shall not accrue during the
14 period of membership and the individual shall make contributions and
15 receive membership credit. Such a member shall have the right to again
16 retire if eligible in accordance with RCW 41.40.180. However, if the
17 right to retire is exercised to become effective before the member has
18 rendered two uninterrupted years of service, the retirement formula and
19 survivor options the member had at the time of the member's previous
20 retirement shall be reinstated.

21 (4) The department shall collect and provide the state actuary with
22 information relevant to the use of this section for the ((joint))
23 select committee on pension policy.

24 (5) The legislature reserves the right to amend or repeal this
25 section in the future and no member or beneficiary has a contractual
26 right to be employed for more than five months in a calendar year
27 without a reduction of his or her pension.

28 **Sec. 8.** RCW 41.45.020 and 2002 c 26 s 4 are each amended to read
29 as follows:

30 As used in this chapter, the following terms have the meanings
31 indicated unless the context clearly requires otherwise.

32 (1) "Council" means the pension funding council created in RCW
33 41.45.100.

34 (2) "Department" means the department of retirement systems.

35 (3) "Law enforcement officers' and fire fighters' retirement system
36 plan 1" and "law enforcement officers' and fire fighters' retirement

1 system plan 2" means the benefits and funding provisions under chapter
2 41.26 RCW.

3 (4) "Public employees' retirement system plan 1," "public
4 employees' retirement system plan 2," and "public employees' retirement
5 system plan 3" mean the benefits and funding provisions under chapter
6 41.40 RCW.

7 (5) "Teachers' retirement system plan 1," "teachers' retirement
8 system plan 2," and "teachers' retirement system plan 3" mean the
9 benefits and funding provisions under chapter 41.32 RCW.

10 (6) "School employees' retirement system plan 2" and "school
11 employees' retirement system plan 3" mean the benefits and funding
12 provisions under chapter 41.35 RCW.

13 (7) "Washington state patrol retirement system" means the
14 retirement benefits provided under chapter 43.43 RCW.

15 (8) "Unfunded liability" means the unfunded actuarial accrued
16 liability of a retirement system.

17 (9) "Actuary" or "state actuary" means the state actuary employed
18 under chapter 44.44 RCW.

19 (10) "State retirement systems" means the retirement systems listed
20 in RCW 41.50.030.

21 (11) "Classified employee" means a member of the Washington school
22 employees' retirement system plan 2 or plan 3 as defined in RCW
23 41.35.010.

24 (12) "Teacher" means a member of the teachers' retirement system as
25 defined in RCW 41.32.010(15).

26 (13) "Select committee" means the select committee on pension
27 policy created in section 1 of this act.

28 **Sec. 9.** RCW 41.45.090 and 1998 c 283 s 7 are each amended to read
29 as follows:

30 The department shall collect and keep in convenient form such data
31 as shall be necessary for an actuarial valuation of the assets and
32 liabilities of the state retirement systems, and for making an
33 actuarial investigation into the mortality, service, compensation, and
34 other experience of the members and beneficiaries of those systems.
35 The department and state actuary shall enter into a memorandum of
36 understanding regarding the specific data the department will collect,

1 when it will be collected, and how it will be maintained. The
2 department shall notify the state actuary of any changes it makes, or
3 intends to make, in the collection and maintenance of such data.

4 At least once in each six-year period, the state actuary shall
5 conduct an actuarial experience study of the mortality, service,
6 compensation and other experience of the members and beneficiaries of
7 each state retirement system, and into the financial condition of each
8 system. The results of each investigation shall be filed with the
9 department, the office of financial management, the budget writing
10 committees of the Washington house of representatives and senate, the
11 select committee on pension policy, and the pension funding council.
12 Upon the basis of such actuarial investigation the department shall
13 adopt such tables, schedules, factors, and regulations as are deemed
14 necessary in the light of the findings of the actuary for the proper
15 operation of the state retirement systems.

16 **Sec. 10.** RCW 41.45.110 and 1998 c 283 s 3 are each amended to read
17 as follows:

18 The pension funding council shall solicit and administer a biennial
19 actuarial audit of the actuarial valuations used for rate-setting
20 purposes. This audit will be conducted concurrent with the actuarial
21 valuation performed by the state actuary. At least once in each six-
22 year period, the pension funding council shall solicit and administer
23 an actuarial audit of the results of the experience study required in
24 RCW 41.45.090. Upon receipt of the results of the actuarial audits
25 required by this section, the pension funding council shall submit the
26 results to the select committee on pension policy.

27 NEW SECTION. **Sec. 11.** RCW 41.54.061 is decodified.

28 **Sec. 12.** RCW 44.04.260 and 2001 c 259 s 1 are each amended to read
29 as follows:

30 The joint legislative audit and review committee, the legislative
31 transportation committee, the ((joint)) select committee on pension
32 policy, the legislative evaluation and accountability program
33 committee, and the joint legislative systems committee are subject to
34 such operational policies, procedures, and oversight as are deemed
35 necessary by the facilities and operations committee of the senate and

1 the executive rules committee of the house of representatives to ensure
2 operational adequacy of the agencies of the legislative branch. As
3 used in this section, "operational policies, procedures, and oversight"
4 includes the development process of biennial budgets, contracting
5 procedures, personnel policies, and compensation plans, selection of a
6 chief administrator, facilities, and expenditures. This section does
7 not grant oversight authority to the facilities and operations
8 committee of the senate over any standing committee of the house of
9 representatives or oversight authority to the executive rules committee
10 of the house of representatives over any standing committee of the
11 senate.

12 NEW SECTION. **Sec. 13.** (1) The state actuary appointment committee
13 is created. The committee shall consist of: (a) The chair and ranking
14 minority member of the house of representatives appropriations
15 committee and the chair and ranking minority member of the senate ways
16 and means committee; and (b) four members of the select committee on
17 pension policy appointed jointly by the chair and vice-chair of the
18 select committee, at least one member representing state retirement
19 systems active or retired members, and one member representing state
20 retirement system employers.

21 (2) The state actuary appointment committee shall be jointly
22 chaired by the chair of the house of representatives appropriations
23 committee and the chair of the senate ways and means committee.

24 (3) The state actuary appointment committee shall appoint or remove
25 the state actuary by a two-thirds vote of the committee. When
26 considering the appointment or removal of the state actuary, the
27 appointment committee shall consult with the director of the department
28 of retirement systems, the director of the office of financial
29 management, and other interested parties.

30 (4) The state actuary appointment committee shall be convened by
31 the chairs of the house of representatives appropriations committee and
32 the senate ways and means committee (a) whenever the position of state
33 actuary becomes vacant, or (b) upon the written request of any four
34 members of the appointment committee.

35 **Sec. 14.** RCW 44.44.030 and 2001 c 259 s 11 are each amended to
36 read as follows:

1 (1) Subject to RCW 44.04.260, the state actuary shall have the
2 authority to select and employ such research, technical, clerical
3 personnel, and consultants as the actuary deems necessary, whose
4 salaries shall be fixed by the actuary and approved by the (~~joint~~
5 ~~committee on pension policy~~) the state actuary appointment committee,
6 and who shall be exempt from the provisions of the state civil service
7 law, chapter 41.06 RCW.

8 (2) All actuarial valuations and experience studies performed by
9 the office of the state actuary shall be signed by a member of the
10 American academy of actuaries. If the state actuary is not such a
11 member, the state actuary, after approval by the select committee,
12 shall contract for a period not to exceed two years with a member of
13 the American academy of actuaries to assist in developing actuarial
14 valuations and experience studies.

15 NEW SECTION. Sec. 15. The following acts or parts of acts are
16 each repealed:

17 (1) RCW 44.44.015 (Administration) and 2001 c 259 s 10;

18 (2) RCW 44.44.050 (Joint committee on pension policy--Membership,
19 terms, leadership) and 1987 c 25 s 4; and

20 (3) RCW 44.44.060 (Joint committee on pension policy--Powers and
21 duties) and 1987 c 25 s 5.

Passed by the House April 26, 2003.

Passed by the Senate April 25, 2003.

Approved by the Governor May 14, 2003.

Filed in Office of Secretary of State May 14, 2003.